Newfoundland and Labrador

REPORT OF THE AUDITOR GENERAL
(Summary)
To the House of Assembly
for the Year Ended
31 March 1997

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Preface

This document is presented as a summary of the *Report of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies for the Year Ended 31 March 1997.* That Report contains approximately 300 pages of conclusions, commentary, recommendations and auditees' comments. When readers identify a topic of interest, we encourage them to read the relevant section in the Report. This document contains information on the items reported in Chapters 1 through 4 and are numbered to coincide with the Report.

Introduction

The *Report of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies for the Year Ended 31 March 1997* was prepared in compliance with Section 12 of the *Auditor General Act*. Section 12 requires that the Report outline significant matters noted during the course of examining the accounts of the Province, agencies of the Crown and other entities which, in our opinion, should be brought to the attention of the House of Assembly.

Comments on the audit of the financial statements of the Province are contained in a separate report entitled *Report of the Auditor General to the House of Assembly on the Audit of the Financial*

Statements of the Province for the Year Ended 31 March 1997. Therefore, along with this Summary, two reports are tabled before the House of Assembly.

Chapter 1

Auditor General's Overview

This chapter provides an introduction to the *Report of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies for the Year Ended 31 March 1997.*

Chapter 2

2.1 Framework of Accountability

I again express concern over the lack of information being provided to the House of Assembly on Crown agencies which are funded primarily by the public purse. The House of Assembly, as part of the budgetary process, approves funding for these agencies and should receive information on how this funding was spent and what this funding has achieved. While considerable attention is given to the Government's budget, there is a lack of emphasis on receiving and reviewing information on how agencies spent the monies which were approved during the budget process.

Our review of the 1996 annual reports tabled in the House of Assembly disclosed that only 7 entities receiving $157.9 million in Government funding had their reports tabled in the House of Assembly. There were no reports tabled in the House of Assembly for the remaining 78 entities which received $1.395 billion in Government funding.

In June 1997, the Minister of Finance and President of Treasury Board was directed, by Cabinet, to proceed with the implementation of a new authority and accountability framework for Government departments.

During the year, Government also established the Public Service Reform Initiative which focuses on organizational and structural issues which impact on how Government operates. One of the three Task Forces that were established as part of this process will focus on the development of an accountability framework for Crown agencies.

In addition, no action has been taken to establish a system of accountability over Memorial University of Newfoundland, which received $134 million in public funding for the year ended 31 March 1997.

We again recommend that the system of accountability over Government departments, agencies of the Crown and Memorial University of Newfoundland be strengthened.

Chapter 3

3.1 Monitoring Agencies of the Crown

As at 31 March 1997 there were approximately 163 Crown agencies in the Province. Of these, 91 were required to prepare annual financial statements while 72 were considered non-financial and did not prepare financial statements. Any expenditures related to the operation of these 72 entities are included with those of the government department responsible for the entity and are audited annually as part of our audit of the public accounts of the Province.

Of the 91 entities required to prepare annual financial statements, 26 were audited by our Office while the remaining 65 were audited by private sector auditors.

Most of these entities do not have any requirement to report to the House of Assembly on the discharge of their responsibilities. As a result, a major role of the Office of the Auditor General is to monitor these entities in order to provide some accountability to the House of Assembly. Section 14 of the *Auditor General Act* requires all private sector auditing firms to submit to the Auditor General a copy of the audited financial statements and any management letters for all Crown agencies which they audit. These financial statements and management letters along with our audits of Crown agencies provide the basis for the monitoring of all Crown agencies. The results of our monitoring activities are outlined in Part 3.1 of the *Report of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies for the Year Ended 31 March 1997.*

3.2 Monitoring Expenditures of the Consolidated Revenue Fund

As part of our audit of the financial statements of the Consolidated Revenue Fund (CRF), we perform tests and reviews of the expenditures made by the various departments.

During the past year, we obtained expenditure information from Government's accounting system relating to grants and subsidies, purchased services, and professional services. This information is provided in Part 3.2 of the *Report of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies for the Year Ended 31 March 1997.*

3.3 Special Warrants

The common parliamentary means of providing spending authority to government is through the annual passing of supply acts. This involves having the Members of the Legislature vote on the government's funding requests. Approval by a majority of the Members of the House of Assembly is needed to pass an Act.

There are three types of supply acts which are usually approved by the Legislature each year. These are the main *Supply Act,* the *Interim Supply Act* and the *Supplementary Supply Act.*

Through the use of a "special warrant", the government can authorize itself to spend public money without obtaining the *prior* approval of the Legislature. Section 28 of the *Financial Administration Act* outlines two instances where a special warrant can be approved and additional funding can be provided to Government if the expenditures are of an urgent and immediate nature.

There were seven special warrants totalling $75.7 million issued in the 1996-97 fiscal year, all of which were issued in March 1997.

Of the $75.7 million in special warrants issued in 1996 -97, $36.9 million were issued although it appears there was not an urgent requirement for the funding.

Expenditures authorized by special warrants will be recorded as expenditures in the financial statements of the Consolidated Revenue Fund in the same year that the warrant is issued. As a result, these expenditures will decrease surpluses or increase deficits of the Consolidated Revenue Fund in the year in which the warrant is issued.

Because special warrants authorize expenditures that impact the reported surplus or deficit in the financial statements of the Consolidated Revenue Fund, the issuance of special warrants should be in compliance with the *Financial Administration Act.*

3.4 The Privatization of Newfoundland and Labrador Computer Services Limited

On 13 October 1994, Government announced the completion of negotiations for the sale of all the shares of Newfoundland and Labrador Computer Services Limited (NLCS) to NewTel Enterprises Limited (NewTel) and its consortium partners Bell SYGMA Inc. (Sygma) and Andersen Consulting (Andersen), representing 80%, 10% and 10% ownership respectively. NewTel and its consortium partners incorporated a new company called NewTel Information Solutions (NIS).

As a result of the privatization of Newfoundland and Labrador Computer Services Limited, Government entered into several legal agreements whereby the Province would receive the following:

- $9 million for the shares of NLCS with the building remaining the property of Government;
- $35 million in new information technology (IT) business to be brought to the Province over seven years by the partners purchasing NLCS ($15 million through NewTel, $12 million through Andersen, $ 5 million through Sygma, and $3 million in research and development to be contracted with NIS by Andersen);
- the creation of 85 new jobs (20 by the third year of the agreement, an additional 40 by the end of the fifth year and another 25 by the end of the agreement) and an additional 27 person years of employment over the first three years of the agreement;
- from the new company, NIS, a commitment to subcontract $9 million in Government work and an additional $12.2 million in non-Government work over the term of the agreements, to 31 March 2002; and
- $587,000 annual building lease rental upon Government's completion of an approximate $2.1 million building expansion project.

In addition, the Share Purchase Agreement entitles the Government to have a representative on the Board of Directors of NIS during the term of the Service Level Agreement which covers the period from September 20, 1994 to March 31, 2002.

For their part, Government and Memorial University of Newfoundland have contracted with NIS to purchase a minimum of $17.5 million annually in IT services during the term of the Service Level Agreement.

During 1997 we completed a follow up review of the privatization of NLCS. Our review indicated the following.

- In accordance with the Industrial Benefits Agreement, NIS is required to submit to Government an Annual Report on the progress being made with respect to the commitments of each party under the Agreement to determine whether Government has received the benefits it negotiated in 1994. At the time of our review Government had received three reports.

Government has not verified the information contained in the annual reports provided by NIS relating to the progress on the commitments of each party under the Industrial Benefits Agreement. As a result, Government has not determined whether it is receiving the benefits it negotiated under the Agreement in the 1994 privatization of NLCS.

The annual Industrial Benefits Agreement reports provided by NIS, although not verified by Government, indicated the following issues:

- Andersen has not provided any of its $3 million commitment to establish a research and development centre within NIS by 13 October 1997, including the creation of 27 person years of employment in the first three years of the Agreement.

- Sygma has only achieved approximately $1 million of its required $2.4 million commitment to bring new business into this Province by 31 March 1997.

- The reports do not provide any information to indicate whether Andersen and Sygma are using NIS as their exclusive representative in the Province and preferred representative in Atlantic Canada as required by the Industrial Benefits Agreement.

For the year ended 31 March 1997, Treasury Board Secretariat indicated that Government did not provide NIS with the $17.5 million in revenue as required under the Service Level Agreement. Under the Agreement, failure by Government to provide the $17.5 million in revenue to NIS in 1996-97 allows NIS to reduce its subcontracting requirements under the Industrial Benefits Agreement of $2.8 million in 1996-97 by the amount of the shortfall in the revenue commitment. Also, NIS's commitment to maintain existing employment levels and establish new jobs as outlined in the Industrial Benefits Agreement shall cease. NIS has not used the remedies which are available to it under the Service Level Agreement.

Although the Share Purchase Agreement entitles the Government to have a representative on the Board of Directors of NIS, Government has not had a representative appointed to the Board since the fall of 1996.

Our review indicated that the provisions of the remaining agreements have been complied with:

- Share Purchase Agreement;

- Pension Agreement;

- Software Trust Agreement; and

- Building Lease Agreement.

- The initial rates charged by NIS for services allows Government to purchase, in the fiscal year ended 31 March 1996, the equivalent quantity of services provided in the fiscal year ended 31 March 1994 for approximately the same total cost on an annualized basis.

Under the Service Level Agreement, NIS is required to maintain service levels comparable to those provided by NLCS at the time of privatization. An independent evaluation of the Mainframe Computing portion of these services, covering the period from August 1994 to May 1995, was completed by a consultant in December 1995. The consultant reported that the service provided by NIS did meet the requirements of the Agreement. Government has not verified the service levels reported by NIS since the period covered by the consultant's report. However, Treasury Board Secretariat officials indicated that they have not received any complaints from Government IT administrators regarding service levels provided by NIS.

- One of Government's objectives of the 1994 privatization of NLCS was to stimulate growth in innovative technologies and information industries in the Province. Government has identified performance indicators to measure growth in the IT industry in the Province since 1994; however, information on these performance indicators has not yet been gathered.

3.5 Newfoundland and Labrador Teachers' Association Group Insurance Plan

The Newfoundland and Labrador Teachers' Association (NLTA) offers a Group Insurance Plan for all its members and those who are retired. There are about 9,500 active teachers and retirees participating in this Plan. The NLTA has appointed a Board of Trustees to administer the Plan. The Board, in turn, has entered into an agreement with an independent third party administrator to act as broker, administrator and consultant for the Group Insurance Plan.

In accordance with the *NLTA Provincial Collective Agreement*, the Province funds the premiums relating to group health, group life, dependent life, and mandatory accidental death and dismemberment insurance on a 50/50 cost-shared basis with teachers and retirees. The annual payments for these premiums as at 31 August 1995 was $6.3 million with Government's share being approximately $3.1 million. The Collective Agreement dated 27 June 1994 defines the premium approval process and outlines the process to be followed in the event of a dispute between Government and the NLTA.

The most recently available financial statements of the NLTA Insurance Fund obtained by Government were for the year ended 31 August 1996. These financial statements indicated that the Plan had a surplus of approximately $5.3 million at that time. Since both Government and teachers fund the Plan, the $5.3 million surplus arose from those contributions. Officials at Treasury Board Secretariat indicated that, in their opinion, approximately $3.0 million of the surplus is attributable to excess Government contributions and as such should be refunded to Government. However, Government does not have an agreement in place with the NLTA as to the ownership and disposition of refunds, surpluses and deficits.

The Collective Agreement provides Government with an option to request arbitration if there is a disagreement on the reasonableness of the premium rates. Government, however, has not attempted to recover the estimated $3 million surplus through this process.

Although Government has received audited financial statements from the NLTA Insurance Fund, the financial statements do not segregate the financial position and results of operation of the provincially funded plans from other activities of the NLTA Insurance Fund. Government does receive annual financial information on the programs which it cost shares; however, it is not audited.

Government contributes its portion of the insurance premium to an independent third party administrator. This administrator deducts an administration fee and submits a net premium amount to the Insurer. Government, however, does not receive any reports to show what is included in the administration fee.

3.6 Compensation Practices

Minute of Council 94-0520, dated 2 June 1996, directed that Treasury Board *"...advise all boards, agencies and commissions, etc., that compliance in all respects with compensation standards which have been established for Government departments is mandatory."* It is clear that Government wanted to ensure that no public sector entity was providing compensation over and above that which had been established for Government departments.

Treasury Board, however, did not advise the boards, agencies and commissions, etc., that compliance with Government's compensation standards is mandatory. The result of Treasury Board not informing the entities was clearly evident during our review of Crown-controlled corporations and agencies of the Crown since the issuance of Minute of Council 94-0520. Our reviews have indicated numerous incidents where the entities provided compensation to employees that was not consistent with the compensation standards established for government departments. In all instances, the entities indicated that they were never informed of the requirement to comply with Government's compensation standards.

3.7 Backup and Disaster Recovery Procedures for Government Microcomputer Systems

The use of microcomputer hardware and software in Government departments has increased in past years. Most departments of Government have installed local area networks (LAN) that have become critical to day-to-day operations. Employees use the LAN daily for purposes such as word processing, financial analysis and communication by electronic mail. Many departments also have purchased or developed microcomputer systems which reside on departmental LANs, or stand alone machines, that are used to deliver Government programs. The loss or unavailability of microcomputer systems could result in either a cost to reconstruct programs and data, delays in delivery of programs and/or loss of prestige and embarrassment to Government.

Microcomputer hardware and software systems can fail. Threats to continuity of system operations include, for example, unforeseen mechanical or electronic failure and the introduction of computer viruses. Disruption to operations and Government programs can be minimized when systems fail, by ensuring adequate backup copies of programs and data are maintained and a disaster recovery plan exists to enable staff to perform a controlled and orderly recovery of the system to normal operations.

Treasury Board Secretariat is responsible for preparation and maintenance of Government's information technology policies. These are documented in the Government of Newfoundland and Labrador Management Manual which was approved by Government in 1985. The Manual states that *"The operation of information systems has become critical factor in the operation of government services. It is essential to ensure continuous services, or the prompt resumption of services in the event of system failure."* Furthermore, the Manual assigns responsibility to departments for ensuring that backup and recovery procedures are in place.

Many Government departments are not complying with Government's information technology policies and procedures. Specifically:

- Departments are not carrying out risk assessments for their computer programs and data to identify critical systems and to determine the extent of backup and recovery procedures necessary to protect continuity of Government's computer system dependent operations.

- Most departments have not developed adequate backup and recovery procedures to be used to recover from any destruction or corruption of programs and data.
- Many departments have not developed disaster recovery plans to guide them to a planned and orderly return to normal operations in a timely and orderly manner in the event they lose their current programs and data.

3.8 Accounts and Loans Receivable in Government

Our previous reports to the House of Assembly have indicated that Government's systems for recording, reporting and controlling accounts receivable did not always provide timely and accurate information to users. As a result, Government did not know how much money was owed to it at any given point in time. The general exception was the amount owed as of 31 March of each year which was determined subsequent to year end in order to prepare the financial statements of the Province.

Government anticipates that this problem will be addressed with the implementation of its new accounting system, which is presently in the development stage.

Our review of Government departments also indicated that a significant portion of their accounts receivable were in arrears and that their cash management program, which includes the collection of these accounts, was not adequate.

We reviewed the amounts owing to Government as at 31 March 1997 to determine whether they are collected on a timely basis.

Our review indicated that, in addition to not collecting amounts owed to it on a timely basis, Government has written off significant amounts owed to it. The systems in place to record, monitor, control and collect amounts owed to Government are not adequate.

Our review also disclosed that at 31 March 1997 the Consolidated Revenue Fund had total receivables of $474.8 of which $215.2 was considered to be uncollectible. In addition, during the period 1993 to 1997, Government has written off $190.3 million in accounts receivables, $16.5 million in tax remission and $9.1 million in tax forgiveness.

3.9 Atlantic Lottery Corporation

The Atlantic Lottery Corporation Inc. (ALC) was incorporated in 1976 under the Canada Business Corporations Act, and is jointly and equally owned by the four Atlantic Provinces. It is a public sector entity that is extensively and directly involved in the management of a variety of lottery and gaming activities on behalf of the Atlantic Provinces.

During 1994 and 1995, the Auditors General of Nova Scotia and New Brunswick, under their respective legislative audit mandates, had attempted, unsuccessfully, to gain full and direct access to ALC for audit purposes. However, on 15 December 1995, the Nova Scotia Gaming Corporation, in its capacity as the Nova Scotia shareholder for ALC, requested the Auditor General of Nova Scotia to *"perform an audit of the operations of the Atlantic Lottery Corporation including issues on economy and efficiency that could impact the Province of Nova Scotia."*

Subsequent to accepting this assignment, the Auditor General of Nova Scotia invited the Auditors

General from the other three Atlantic Provinces to participate in this audit.

There were no restrictions or limits placed on the scope of the assignment which was planned and conducted as a legislative audit. The audit was performed jointly by audit staff from Nova Scotia and New Brunswick, with audit plans and results being reviewed with the Auditors General of Newfoundland and Prince Edward Island.

Since being established in 1976, ALC has reported sales in excess of $4.7 billion up to and including the fiscal year ended 31 March 1996. After prizes, commissions and other costs of approximately $3.1 billion, ALC has distributed profits of $1.56 billion to its shareholders of which $383 million has been distributed to Newfoundland. On behalf of its four shareholders, ALC is now directly involved in the annual management and control of more than $1 billion of public funds through its various gaming products and related activities.

The objective of the audit was to review the systems and practices for the management and control of selected areas or aspects of ALC's operations. The audit indicated the following.

- The audit did not identify any significant control weakness that would impact upon the overall integrity of financial records of ALC. In addition, nothing was observed that would indicate that the integrity of ALC's lottery and other gaming products has been adversely affected.

- Changes necessary to improve the overall governance and accountability arrangements need to be considered. For example, during the audit, a number of issues were identified which indicate the inter- provincial agreements and corporate bylaws should be revisited to determine if they provide the appropriate level of guidance to ALC and its shareholders.

- ALC approved its Information Technology Strategy in 1992. The most significant initiative of the 1992 strategy, the New Retail Terminal Project, was actively underway when the audit was conducted in 1996. This project is intended to replace all existing on-line terminals at an estimated total cost of $31.2 million over the next three years.

  Two major issues related to this project were identified during the audit.

  - The 1992 Information Technology Strategy and related business plan indicated that the impact of the New Retail Terminal Project on profit would accumulate to $50 million by the end of 1997-98. However, these benefits should have been updated in 1996 when they commenced the project to determine if they were still valid.

  - ALC should have estimated the net benefits in terms of future profit distributions to the shareholders, and formally presented this information to the Board. Also, the method of how depreciation on the terminals would be allocated amongst the shareholder provinces was raised as an issue, since the method selected will impact profit distribution amongst the provinces.

- In general, the review of procurement activities indicated ALC's procurement policies were being complied with.

  However, ALC's inter-provincial agreements, corporate bylaws and Board resolutions do not provide any specific parameters with respect to achieving fair and equitable distribution of the economic impact or benefits provided by ALC expenditures to each of the four shareholder provinces.

Despite the absence of direction on the delivery of economic benefits, Board members have maintained a steady interest in the distribution of ALC's procurement activity. Since 1990, ALC has prepared at least four reports titled the *Economic Benefits Analysis*. A summary of one of these reports is included in Part 3.9 of the *Report of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies for the Year Ended 31 March 1997*.

- ALC's profit allocation methodology was established in 1991 when the Video Lottery Program (VLP) was just being implemented. This program, which now represents 58% of ALC's net sales, is not charged with any of ALC's general overheads. Further, certain costs related to the VLP are being allocated instead to ALC's other games. This inconsistency has highlighted the need to re-examine the whole profit allocation methodology.

  The manner in which costs and profit are currently being allocated results in certain shareholder provinces, in essence, subsidizing the results in other jurisdictions by having more than their share of direct costs charged against their net sales. This latter point is especially relevant to retail commissions and depreciation, which more reasonably should be charged directly to each province as opposed to being allocated based on net sales.

- ALC's head office staff and related activities have been located in a combination of owned and rented office space for a number of years. In 1997, ALC's head office will be consolidated in premises in a newly renovated building in downtown Moncton under the terms of a 10-year lease.

  The audit raised concerns about the adequacy of the audit/management trail supporting the Board's deliberations and decisions relating to the acquisition of ALC's new head office facilities, which will consolidate head office staff and related activities in one location. Although the issue of ALC's head office space was dealt with at numerous Board meetings, the net benefits to accrue to shareholders as a result of the additional costs to be incurred were not formally quantified and provided to the Board as part of its decision making process. Further, it is unclear as to the extent of review, challenge or approval provided with respect to key assumptions made and analysis provided by management (i.e., average space standard per position and projections for staff growth).

  Further, the Board's decision by majority vote, was made at a time when one of the shareholders (Nova Scotia) was in the process of reviewing the structure and arrangements for the Corporation. The formal review regarding decentralization of ALC's activities had been commissioned but had not been finalized at the time the Board approved the new 10 year lease. The audit concluded that the decision should have been deferred until the review was completed.

3.10 Review of Government's Pension Plans

Prior to 1967, public service pensions in the Province were paid under the authority of the *Civil Service Act*. These pensions were non-contributory and as such employees and Government were not required to make contributions to a pension plan. The Province was paying 100% of the annual pension benefits out of the Consolidated Revenue Fund. In 1967, legislation was enacted which required that employees contribute to a pension plan along with the Province. These employee contributions were paid into the Consolidated Revenue Fund and pension benefits continued to be paid out of it.

In 1981 the *Pensions Funding Act* was enacted to create a separate fund for the funding of public service pensions. This legislation required that employee and employer pension premium contributions be paid into a separate fund, the Province of Newfoundland Pooled Pension Fund. The affairs of the Fund are managed by the Minister of Finance, as Trustee of the Fund. The Fund is comprised of four pension plans: the Public Service Pension Plan, the Teachers' Pension Plan, the Uniformed Services Pension Plan and the Members of the House of Assembly Pension Plan. The Teachers' Pension Plan includes the Teachers' Ancillary Pension Plan.

The large increase in pensions and pensioners has contributed to the financial uncertainty of each of the pension plans. At 31 March 1997 the plans had an estimated unfunded liability of $3.1 billion.

Commencing during the fiscal year 1997-98, Government is proposing to make special payments to the Public Service Pension Plan. Government has announced that it will contribute $30 million in each of 1997-98 and 1998-99. Every year after that it will continue with payments of at least $40 million per year until the pre-1980 debt is repaid. In addition, Government is proposing to increase the contributions for employees and employers over the next four years. This will extend the life of the plan beyond the year 2030.

We reviewed pensions paid by the Province of Newfoundland Pooled Pension Fund from 1 January 1987 to 31 December 1996. Our review indicated the following:

- Since 1994, eligibility for disability benefits under a pension plan is based on the recommendations of the Division's medical consultant that the disability is permanent. Prior to this time pension eligibility was based on the assessment of the examining physician and in some instances a specialists.

  Our review disclosed a number of cases where the doctor's assessment indicated that the disability may not be permanent. However, there was no follow-up to determine if the employee could return to work.

- Government policy applicable to government departments, Crown agencies and Crown corporations requires that preference be given in hiring to persons other than those in receipt of a pension under one of the four public sector pension plans, unless there are no other persons qualified to fill the position. All exceptions to this policy require Cabinet approval. As a control, the Pensions Division regularly performs a comparison of the pension payroll to the annual listing of contributors sent in from the various agencies and anybody who is contributing to a pension plan while drawing a pension is investigated. However, this process does not detect re-employed pensioners not contributing to a plan.

  Our review of the general service and teachers' payrolls identified 149 employees who received both a salary and a pension in 1996. Salaries ranged from $25 to $43,234 while pensions ranged from $2,108 to $60,926. Of the 149 employees only 2 had received Cabinet approval as required by government policy.

  While many of the amounts paid are small, Government's policy does not provide any exemption based on the dollar value of the pension or salary being paid.

- The unfunded liability of public sector pension plans is estimated to be $3.1 billion as at 31 March 1997. The unfunded pension liability is the amount by which the present value of estimated future pension benefits exceeds the assets in the pension plan.

- Three of the five pension plans are depleted of assets. The Uniformed Services Pension Plan and the Members of the House of Assembly Pension Plan required payments from the Province of $6.3 million and $1.4 million respectively in 1996 in order to pay pension benefits to pensioners. The Teachers' Ancillary Pension Plan was depleted of assets in 1996 and borrowed $1.9 million from the regular Teachers' Pension Plan during that year to pay pension benefits.

- Borrowing by the Teachers' Ancillary Pension Plan from the regular Teachers' Pension Plan, as negotiated in the teachers' collective agreement, contravenes the *Teachers' Pension Act* which states that benefits payable under the Ancillary Plan shall only be paid to the extent funds are available in the Ancillary Plan to pay the benefits.

- The Teachers' Pension Plan is projected to be depleted of assets by 2004 or by 2003 should it be used to cover the deficiencies of the Teachers' Ancillary Pension Plan. The Public Service Pension Plan was expected to be depleted of assets by 2019. However, with Government's special payments and the additional contributions, it is estimated that the Public Service Pension Plan's assets will not be depleted before 2030.

- Deficiency payments of $7.7 million were paid by the Province in 1996 for the two pension plans already depleted of assets (the Uniformed Services Pension Plan and the Members of the House of Assembly Pension Plan). Deficiency payments by the Province are expected to increase to $120 million in 2004 when the Teachers' Pension Plan is expected to be depleted of assets and to $460 million in 2019 if the extra payments are not made to the Public Service Pension Plan.

3.11 Newfoundland Liquor Corporation

The Newfoundland Liquor Corporation is an agent of the Crown incorporated under the *Liquor Corporation Act* of 1973. It is charged with overseeing the import, manufacture, possession, and sale of all alcoholic beverages within the Province. It is governed by a board of directors appointed by the Lieutenant-Governor in Council.

Each year the Corporation remits contributions from its net income to the Province. Over the past six years these have ranged from $73.3 million to $81.5 million with $81.2 million budgeted for the fiscal year ended 31 March 1998.

In 1992 the Newfoundland Liquor Licensing Board, charged with the issuing and enforcing of liquor licences, was merged with the Liquor Corporation. With this merger, however, each entity's board of directors was retained to manage the two different aspects of the Corporation's operations. Effective 1 January 1997 the boards were merged into one new board. Effective 1 April 1995 the licensing branch was made part of the new Government Service Centre, leaving only the enforcement division of the old Liquor Licensing Board as part of the Liquor Corporation.

We completed our review of the Corporation in November 1997. Our review indicated the following:

- Since March 1992 the Corporation has privatized 13 retail stores, converting them into agency stores. They have also approved four agency stores in communities where there were no retail stores. The Corporation has predefined criteria to be used in selecting which retail stores should be converted to agency stores.

The Corporation also has predefined criteria to be used in selecting the successful applicant for an agency store. However, our review identified areas where the selection process could be improved. For example, the assessment of the criteria by the Corporation is subjective in that the evaluations of the proposals received are not quantified. A point system would enable the Corporation to better demonstrate how the successful applicant was selected.

In addition, the process to select the successful applicant for an agency store could be improved if the Corporation developed written procedures to outline the documentation required in the applicants' evaluation files.

- The Corporation did not always comply with the *Public Tender Act*. The Corporation's policy for purchases less than $1,500 is in contravention of the Act since the policy does not require that quotes from three suppliers be obtained for these purchases. We also identified instances where the lease of store space was not in accordance with the provisions of the Act.

- Deficiencies were noted in certain areas of expenditure. Policies and procedures do not exist for the hiring of external consultants, resulting in some consultants being used for many years without evaluation and requests for proposals.

  The Corporation does not have documented travel guidelines to ensure consistency in the preparation and approval of travel claims. Also, vehicle use and expenses are not being properly monitored.

- The roles and responsibilities of the Board and its various committees are not defined and member profiles are not developed outlining the criteria to ensure the appointment of members with the required expertise. In addition, vacant Board positions have not been filled on a timely basis.

- The Corporation's management practices are lacking in some areas. In particular, strategic and operational plans have not been developed and no marketing plan exists for the promotion of its products. The Corporation's budgeting process does not reflect the potential savings from the privatization of retail stores. In addition, human resource policies and managerial position descriptions have not been updated to reflect changes in the Corporation, and performance evaluations are not being performed on all employees.

3.12 Vehicle Fleet Management

Minute of Council 1272-79 assigned the Department of Works, Services and Transportation with the responsibility for the efficient and effective management of Government's fleet of light vehicles including cars, station wagons, 4-wheel drives, vans and small trucks.

Government had 869 light vehicles in operation at 20 February 1997. These vehicles had a total acquisition cost of approximately $15 million. In addition to these 869 vehicles, the fleet inventory, at the end of February 1997, also included 94 vehicles which were being held for disposition.

For this same period, Government also rented 117 vehicles for the equivalent of 307 months at approximate rental, maintenance and operating costs of $601,000. These costs were obtained from the various departments and from the Equipment Management System. However, it was not possible to identify all costs relating to rental vehicles. For example, operating costs are not available for the vehicles rented by the Departments of Fisheries, Food and Aquaculture, Justice, and Executive Council, nor are operating costs available which were reimbursed on travel claims or acquired through direct purchase order. Without this information, it is not possible to determine whether it is more cost effective for Government to rent or purchase vehicles.

For the year ended 31 March 1997, total costs associated with managing Government's light vehicles, excluding the operation of repair facilities, insurance, and other transportation costs was approximately $7.7 million. For the same period, approximately $15 million was incurred for the operation of repair facilities (excluding capital) and $667,000 was incurred for insurance. These amounts, however, are for maintaining both heavy and light vehicles and equipment and information on the cost allocation between heavy and light vehicles and equipment could not be provided. In addition, $12.1 million was spent on other transportation methods. This includes, not only taxis, personal mileage and short-term rentals, but also airfares, hotels and meals. There is no information available on costs specific to taxis, personal mileage and short-term rentals.

We completed our review of fleet management for light vehicles in May 1997. Our review focused on the Fleet Management Branch and the Departments of Works, Services and Transportation, Forest Resources and Agrifoods, Justice, Government Services and Lands, and Tourism, Culture and Recreation. These five departments operate approximately 90% of Government's light vehicles. Our review of Government's light vehicles indicated the following.

- In 1991, Government directed a reduction in the number of its light vehicles from 1,077 to 908 by 29 March 1991, with an objective of further reductions to a fleet in the vicinity of 600 vehicles. In February 1997, there were 869 Government-owned light vehicles. While the size of the fleet has been decreasing, Government could not justify its present complement of light vehicles.

- Government purchased 116 light vehicles in 1996-97. Departments do not provide adequate documentation to justify the need for the new vehicle acquired. In addition, there was no evidence that these vehicles were the most economical vehicles available to meet the transportation needs of Government.

  Cost information needed to assess alternatives to purchasing vehicles is not available. Such alternatives include leasing, use of car allowances, use of taxis, and reimbursement for personal vehicle usage.

- A computerized information system is used to facilitate the management of Government's light vehicles. A review of this system indicated that the information produced is not timely, complete, accurate or understandable.

- Most users of the reports produced by the computerized information system indicate they did not review or analyse the information provided. As a result, the cost of maintaining Government's light vehicles and the extent of their usage is not being adequately monitored.

- At the end of February 1997 there were 869 passenger vehicles with an original acquisition cost of $15 million. For the eleven months ended February 1997, information recorded in the computer system indicated that these vehicles travelled in excess of 24 million kilometres at approximate operating and maintenance costs of $4 million; however, our review indicated that not all costs are included in this system.

- In addition, the Department operates 50 repair facilities to service Government's heavy and light vehicles and equipment. For the year ended 31 March 1997, the cost of operating these repair facilities (excluding capital costs and insurance) was $15.0 million. However, the portion of these costs relating to the light vehicles is not known. Without complete information, Government does not know the total cost of operating its light vehicles.

- Fleet Management policy requires that vehicles driven less than 10,000 kilometres per year must be reviewed to ensure that continued use of the vehicle is justified; however, there are no reports produced for this purpose. We identified 244 vehicles in February 1997 which were driven less than 10,000 kilometres in the preceding year and for which continued operation had not been justified.

- Fuel pumps at the Department's largest refuelling site in St. John's are computerized and are accessed with individual keys encoded with the vehicle and department number. At the time of our review, there were 869 light vehicles and 1,448 keys had been issued. The Department could not provide us with a listing indicating which department or which vehicle were assigned each of these keys.

- Credit cards are also available to purchase fuel for Government's light vehicles. As of February 1997, there were 819 active credit cards. However, our review of a sample of 12 vehicles which had been disposed of in 1996-97, identified 4 credit cards which were still active even though the vehicles had been sold for several months. As a result of the inadequacies of the Department's Computer System to capture information by transactions date, we could not determine whether charges were made to the inactive cards.

- There are often considerable delays in carrying out recommended preventative maintenance work which may result in increased repair and maintenance costs in the future.

- Of the 869 vehicles in operation as of February 1997, 412 were older than six years. There is no formal vehicle replacement policy and information on the deferred costs associated with maintaining vehicles beyond their economic lives is not known.

- There is no system to ensure vehicles are promptly disposed of. In addition, the information system used to manage Government's vehicle fleet is not always promptly updated for dispositions, which reduces the usefulness of the various information reports prepared from the system.

3.13 Government Purchasing Agency - *Public Tender Act* Exception Reporting

The *Public Tender Act* provides legislative direction for the calling of tenders for the acquisition of goods and services by all government funded bodies. Government funded bodies include all departments, the Government Purchasing Agency, Crown corporations and agencies of the Crown, municipalities, school boards, hospitals and Memorial University of Newfoundland. In general, the *Public Tender Act* requires that, with few specific exceptions, tenders be invited for the purchase of goods or services or the execution of a public work.

Where a tender is required and one has not been called, the head of the government funded body must inform the Minister of Works, Services and Transportation within five days of the awarding of the contract. The Minister must table this information in the House of Assembly within thirty days indicating the reasons why a tender was not called for each of the items not tendered.

We carried out a review at the Government Purchasing Agency to determine whether all public tender exceptions were tabled in the House of Assembly as required by the *Public Tender Act*. We also reviewed the system in place at the Government Purchasing Agency to determine whether it was recording all public tender exceptions.

Our review disclosed that although all exceptions that are reported to the Government Purchasing Agency are forwarded to the Minister of Works, Services and Transportation for tabling in the House of Assembly, the Government Purchasing Agency is not notified by government funded bodies of all exceptions. Therefore, the exception reports which are tabled in the House of Assembly are incomplete.

Although the Act and Regulations require government funded bodies to report their public tender exceptions to the Minister of Works, Services and Transportation within five days of the awarding of the contract, our review indicated that some exceptions were not reported by the government funded body until more than two years after the awarding of the contract.

In addition, some of the reports which are tabled in the House of Assembly are not being tabled within the time frame specified in the Act.

3.14 School Board Expense Review

The Department of Education spent in excess of $734 million on developing and maintaining a provincial education system in 1996-97. Seventy-five percent of this amount was spent in providing financial assistance to school districts to administer a primary, elementary and secondary school system.

On 1 August 1996, in accordance with subsection 4(1) of the amended *Schools Act*, the Lieutenant-Governor in Council established 10 school districts under the *Boundaries of School Districts Order*. The existing 27 school boards continued to exist and administer the schools within their jurisdiction until their dissolution on 31 December 1996.

We completed a review of the restructuring of the 27 school boards into 10 district school boards. The objective of this review was to assess whether financial controls and practices during the windup were adequate and whether transactions were made in accordance with Government and board policies and procedures. This review included an examination of staff remuneration, operating expenses and capital asset controls of three former school boards, and a review of staff remuneration for seven other former boards during the 18-month period prior to the dissolution of these school boards.

As a result of findings during our review of the old boards, we expanded our examination to review compensation practices at three of the new district school boards. Our review indicated the following.

Financial controls and practices during the windup of the Province's 27 school boards and the start-up of the 10 new district school boards were not adequate. In addition, in areas where it was apparent that boards were not complying with Department of Education policy, the Department did not initiate any action to ensure boards adhered to its policies. Specifically:

- The executive staff, consisting of director and assistant director positions for the 10 new district school boards, are required to be paid using salary scales approved by the Lieutenant-Governor in Council. When approving these salary scales, the Lieutenant-Governor in Council directed the Department of Education to ensure that boards place employees on the approved scale at the step next highest to their current salary, but in no case above step 33.

The Minister of Education communicated the approved salary scales to the district school boards on 25 October 1996 and at that time indicated that the boards did not have the authority to top up the approved salaries. However, in a letter dated 15 November 1996 to the executive director of the Newfoundland and Labrador School Boards' Association, the Minister provided flexibility to the boards in placing executive staff at a step on the approved scale not in excess of step 25 as long as the boards had other funds to pay these salaries.

A review of all 10 new district school boards' salary classifications identified seven boards which had informed the Department of Education to pay some of their directors and assistant directors at higher levels than that approved by the Lieutenant-Governor in Council. Contrary to the direction of the Lieutenant-Governor in Council, the Department of Education paid the higher salaries as requested by the school boards. The amount in excess of the approved levels totalled approximately $160,000. Although the Department is not funding this additional salary through its salary grants to school boards, it is being funded through other grant sources.

- The salary scales for the director and assistant director positions for the 10 new school boards were established using Treasury Board's Hay system for executive staff. This resulted in salary scales for employees based upon their level of responsibility. However, boards were directed to place employees on the step of the scale next highest to their current salary and as a result inconsistencies in salary levels within the previous system have been incorporated into the current system.
- There are 10 directors and 30 assistant directors in the 10 new school boards. In establishing the minimum salary a director or assistant director could be paid the Department requested employees to complete a form indicating their current annual salary levels. We assessed the accuracy of 12 of the 40 salary submissions. Our review indicated that 5 of the 12 salary submissions included one-time bonuses, bonuses not actually paid, inflated bonuses and one-time vacation payments as part of their annual salary. The Department's annual funding for administrative salaries for 5 of the 12 school board executive positions is therefore overstated by approximately $26,000.
- The Department of Education informed the school boards that employees who accept lower paying positions as a result of their positions being made redundant be treated in accordance with Government's voluntary demotion policy. This policy states that the rate of pay for the employee shall be established on the pay range of the new position at a rate that does not exceed the employee's present rate. Our review disclosed two instances where employees' salaries were maintained at their old rates when their previous positions were declared redundant and they were transferred to lower paying positions with the new boards. This results in approximately $25,000 being paid annually in excess of what they should have received.

Our review of 10 former school boards during the period of dissolution indicated numerous instances where the boards did not comply with the direction of the Minister of Education and the *Schools Act*. Specifically:

- In July 1996, the Minister of Education informed school boards that, upon retirement or resignation, superintendents and assistant superintendents are entitled to payment for up to 50 days annual leave which was in accordance with Departmental policy. Our review disclosed five instances where former superintendents and assistant superintendents received a total of $65,917 in board payments in addition to the 50 days paid or brought forward by the Department.

- Superintendents' and assistant superintendents' annual salaries, representing 365 days, were paid out over 26 pay periods or 364 days. Over a five to six year period this results in one week's pay. The Department of Education, in accordance with the Newfoundland and Labrador Teachers' Association Collective Agreement, did not pay the superintendents' and assistant superintendents' salaries for one week in August 1995. However, 9 of the 10 former boards examined paid this week's salary from other funding.

- All three of the former boards that we examined in detail held annual and retirement dinners and gave appreciation gifts to board members and staff. Total costs of these dinners and gifts were approximately $19,000. Also, one of these boards gifted two computers to two retiring employees, one of which had an original cost of approximately $5,000. We note that neither the *Schools Act* nor the July 1996 amendment to the Act provided for such transactions.

- In three of the former school boards we examined controls over assets at the time of dissolution. We found that these school boards did not maintain an adequate record of assets. Listings were prepared as a result of the dissolution of the school boards. However, these could not be supported by an ongoing record of capital assets. We also note that these listings did not always provide brand names or serial numbers for easy examination.

3.15 Newfoundland Farm Products Corporation

Newfoundland Farm Products Corporation was established in 1963 under the *Farm Products Corporation Act*. On 6 October 1997, Government announced the sale of the Corporation to a consortium of local chicken producers. As a Provincial Crown corporation, Newfoundland Farm Products Corporation produced a full range of chicken products which were marketed throughout the Province, the Maritimes and central Canada. The Corporation operated two federally inspected abattoir complexes in the Province, one in St. John's and one in Corner Brook. The Corporation processed 8.0 million chickens per year, 5.1 million in St. John's and 2.9 million in Corner Brook, resulting in 11.8 million kilograms of saleable product in 1996-97. The Corporation employed approximately 275 people and had an annual payroll of $10.2 million.

Sales for the past 10 years averaged $25.3 million per year, ranging from $21.4 million in 1987-88 to $35.9 million in 1996-97. The net operating loss for the past 10 years averaged $4.3 million per year, ranging from $2.1 million in 1987-88 to $7.9 million in 1996-97. Operating grants from the Province for the past 10 years totalled $35.7 million.

We commenced a review of Newfoundland Farm Products Corporation in January 1997, prior to the privatization of the Corporation.

Our review indicated that certain compensation practices at the Corporation were not appropriate. We identified payments totalling $76,106 to three senior officials which did not comply with Government's compensation policies. In accordance with Section 15(1)of the *Auditor General Act*, these matters were reported to the Lieutenant-Governor in Council in April 1997. I have been informed by Government that it directed the Corporation to recover amounts totalling $55,406, comprised of $5,801, $28,336 and $20,909 from the respective officials.

In accordance with Section 15(1) of the *Auditor General Act*, certain other transactions of the Corporation were reported to the Lieutenant-Governor in Council in November 1997.

Government is presently reviewing that report. As a result, the audit report on Newfoundland Farm

Products Corporation has not been included in this Annual Report.

3.16 The Privatization of Newfoundland Hardwoods Limited

As at 31 March 1995, Newfoundland Hardwoods Limited had total assets of $14.8 million, liabilities of $1.0 million and shareholders' equity of $13.8 million. From 1991 to 1995, Hardwoods had annual average sales of $12.9 million and during that period remitted dividends to the Province totalling $4.7 million.

When Government decided to privatize the Corporation, a business valuation performed by the divestiture consultant indicated the fair market value of the Corporation ranged from $8.6 million to $9.6 million. The 1995-96 provincial budget indicated that proceeds from this privatization were estimated at $8.5 million. Government sold the capital assets and inventory of the company in August and September 1995 for $6.7 million and estimated the immediate cash flow from this privatization to be $7.0 million. The Province will also receive 10% of Wood Preservation Industries Limited's net income to 31 October 2000. Wood Preservation Industries Limited purchased the poles and timber treatment operations of Hardwoods.

In our 1996 Annual Report to the House of Assembly, we reported on the results of our review of the privatization of Newfoundland Hardwoods Limited. This review disclosed that although the assets of Newfoundland Hardwoods were sold in August and September 1995, as of October 1996, the transaction had yet to be finalized, audited financial statements for the year ended 31 March 1996 had not been released, and the Province had only received $5.6 million of the anticipated $7.0 million in proceeds.

We now report that, as of November 1997, the transactions relating to the sale of the Corporation have still not been finalized, the audited financial statements for the years 31 March 1996 and 1997 are still not available, and the Province has still not received $1.4 million of the $7.0 million that was initially estimated. In addition, the consultant who had originally been engaged based on a proposal of $39,000 plus disbursements for phase 1 of the divesture is still engaged to wind up the Corporation. Total fees paid to this consultant to date have been approximately $500,000 while other consultants have been paid $400,000.

3.17 Residential Services Program

In an effort to provide individuals with developmental disabilities with access to the community and to reduce overall Government expenditures, the Department of Social Services set up the Residential Services Program and closed institutions such as Exon House and Children's Home. This new Program included the use of special foster care in private homes, a developmental group home, 2 developmental maximization units and 24 group homes.

As a result of a departmental review in 1989, it was recognized that group homes were not fulfilling their original mandate of placing individuals in a home-like environment and there was an increased availability of other community living arrangements, such as co-operative apartments, alternate family care and individual living arrangements.

Expenditures for group homes and co-operative apartments under the Residential Services Program for individuals with developmental disabilities has decreased from $13.1 million in 1990-91 to $7.1 million in 1996-97. There are approximately 71 individuals served at an average monthly cost of $10,392, for an annualized expenditure of $124,704 per individual. By way of comparison, the average cost per individual per month under the Home Support Services Program is $1,212, for an annualized expenditure of $14,544 per individual.

Our review of the Residential Services Program indicated that there are a number of weaknesses in the management of the Program and as a result there are opportunities to strengthen controls.

The following issues were identified during our review:

- The Department does not have a standardized assessment tool to be used in determining the appropriate level of care to be provided to each individual with developmental disabilities. As a result, the reasons for differences in annual expenditures for each individual group home and co-operative apartment are not readily available.

- With the exception of 6 homes which are mortgaged and 1 home that is provided by a client's family, the Department funds rent on the remaining 25 homes. However, the Department has no policy on how the rental accommodations are selected and the maximum amount to be funded by the Department. Annual rents vary from $4,800 to $23,768 and at least four of the homes rented are owned by the same individual. As a result, there are inconsistencies in the housing arrangements for individuals in group homes and co-operative apartments.

- Group homes and co-operative apartments are not operating, in all cases, at full occupancy. As a result, the Department is incurring expenditures in excess of the amount that it needs to operate the Program.

- There are no signed service agreements between the Department and the independently operated community boards that manage group homes and co-operative apartments. As a result, the Department does not have an accountability structure in place to clearly define the roles and responsibilities of these boards.

- The Department, as part of its total funding to the group homes and co-operative apartments, funds various assets including office equipment, home appliances and furniture, automobiles and the mortgage payments on houses owned by the boards. For example, one board has a house for which the mortgage is being funded by the Department and there is no agreement in place to address the disposition of the property in the event of a wind-up of the board. The Department intends to include the disposition of assets in its service agreements.

- Some boards have relatives of the individual(s) serving on the board. While this is a positive approach to meeting the needs of the individuals receiving services, there is a potential for conflict of interest issues.

- For the past several years, the Department, rather than the boards, has been preparing the budgets for the group homes and the co-operative apartments. This does not comply with the Department's policy. As a result of this budget process, there is no meaningful challenge of the boards' budgets and boards cannot be held fully accountable for the results of operations. In 1995-96, 8 of the 14 non-profit entity boards had expenditures in excess of the amounts budgeted by the Department.

- In the 1995-96 budget for the Residential Services Program, the Department requested, and the Government approved, approximately $1.1 million in funding for one group home and five co-operative apartments that were closed or scheduled to close when the Department prepared its budget. As a result, the Department's budget was overstated by $1.1 million. The Department used the $1.1 million for additional funding requests.

- The individuals displaced by the closure of the group homes and co-operative apartments identified above were transferred to the Home Support Services Program. Our review indicated that it generally costs less to provide services to these individuals under the Home Support Services Program.

- The Department is not adequately monitoring the activities of these boards. For example, quarterly financial information is not received on a timely basis. As a result, the Department is unable to react to changes in the boards' financial positions throughout the year.

  Although the Department has a zero tolerance policy with respect to deficits, it is not enforcing the policy. Of the 14 boards operating as at 31 March 1996, 8 reported deficits that totalled $262,645. The Department provided funding of $154,930 towards the accumulated deficit of one board.

- Even though the Department prepares the budgets and makes quarterly payments to boards, it has not reduced the funding by the boards' surplus amount in all instances as required by departmental policy. The Department's policy requires that all surpluses greater than $3,000 are to be returned to the Province or deducted from the quarterly instalments paid to the boards. Of the 14 non-profit entity boards, 6 have a combined surplus of $94,174 as at 31 March 1996.

- The Department does not adequately review the financial statements of the non-profit entity boards to ensure that expenditures relate to the approved budgets.

  Several group homes and co-operative apartments have exceeded rates established for certain categories of expenditures. The Department has not determined the reasons for these variances and has not carried out any on-site reviews of these expenditures.

  Not all expenditure categories have limits. As a result, certain types of expenditures vary significantly between group homes and co-operative apartments.

- The Department provides approximately $877,000 per year to hire staff for individuals who do not attend day programs. However, the Department is not obtaining sufficient information to determine what services are being obtained with this funding and the progress of individuals obtaining services.

  These costs are budgeted and recorded elsewhere in the Department and, as a result, the total cost of the Residential Services Program is not considered when monitoring expenditures.

3.18 Central Regional Community Health Board

The Central Regional Community Health Board was established in February 1994 and operates under the authority of the *Public Health Act* and the *Central Regional Community Health Board Order*. Its operations are governed by a Board of Directors, comprised of 14 members appointed by the Minister of Health. The Board is responsible for providing community health services to approximately 120,000 people in 210 communities.

By the start of the 1995-96 fiscal year, the Board had integrated the services, programs and staff members from the Gander and District Continuing Care Program, the Central Newfoundland Health

Unit, and the Drug Dependency Services Division of the Department of Health. Since then, the Board has assumed additional programs, and now employs approximately 125 staff.

Operating expenditures for 1995-96 were approximately $10.1 million and $12.7 million for 1996-97.

We completed our review of the Central Regional Community Health Board in February 1997. Our review indicated the following.

- Since its establishment in 1994, the Board has seen a significant increase in its programs and budget. Although a strategic planning process was started in May 1995, it was put on hold because of the changes caused by the transfer of these new programs from government departments. As a result, the Board has not completed a strategic plan.

  Operational planning needs improvement in that it does not include the establishment of annual performance objectives with measurement criteria, time frames and assignment of tasks to specific individuals. Furthermore, operational planning is hampered in that the Board's annual budget is not always approved by the Department of Health prior to the commencement of the fiscal year and the Board is not always provided with timely notification about programs and related budgets transferred to them.

- The Board monitors the utilization of its program resources through the use of statistics on caseloads, workloads, waiting lists and monthly financial reports. Although the Board maintains separate databases for each of its major programs, the systems for monitoring this information are not adequate. In particular:

  - The monitoring of program performance data is a manual process and thus time consuming and inefficient. Performance information such as workload and caseload statistics is not integrated with the financial data to provide costs for individual activities. The Board has not developed performance standards which can be used to compare actual results. Actual performance results are not reported to the Board for review and analysis.

  - There is no formal follow-up with clients within the Home Support Program for Seniors to ensure they had received the care paid for by the Board. Time sheets to support such payments did not always have the proper signatures. In addition, client files did not always contain adequate support for incomes and debts, and drug cards were issued for inconsistent periods of time, depending on the financial assessment officer.

  - The Board has 14 personal care homes in its region with 175 subsidized beds and 191 unsubsidized beds. There is no periodic review of individual files to ensure adequate documentation exists to support the subsidies. Documentation to support client income and prorated subsidy calculations is not always on file.

- Our review did not indicate any instances of non-compliance with the *Public Tender Act*. However, the Board has not documented its policies and procedures for the acquisition and control of goods and services.

  The Board is not adequately safeguarding its capital assets since there is no listing of capital assets and assets are not tagged, counted annually, or agreed to the financial records.

- A review of the recruitment, hiring, and evaluation of staff and the monitoring of leave and overtime disclosed that these areas were adequately monitored; however, except for public health nurses, performance evaluations are not performed. In addition, leave is monitored manually and, as such, is time consuming and does not provide for periodic reporting.

  In November 1995, the Board requested Treasury Board to approve its reclassification of 12 management positions. The Minister of Health advised the Board not to proceed with this reclassification. The Board, however, proceeded with the reclassification and paid $69,302 in retroactive salary to these 12 staff.

3.19 Faculty of Medicine of Memorial University of Newfoundland

The Faculty of Medicine of Memorial University of Newfoundland was established in 1967. Its purpose is to enhance the health of the people of Newfoundland and Labrador by educating physicians and health scientists, by conducting research in clinical and basic medical sciences and applied health sciences and by promoting the skills and attitudes of lifelong learning.

Each year approximately 60 students are accepted into the Faculty's four year undergraduate program, with the majority of places reserved for residents of Newfoundland. Tuition fees for an undergraduate degree are $6,250 per year for Canadian students and $30,000 per year for non-Canadian students.

The Faculty also offers programs in postgraduate training (residency), continuing medical education and graduate studies leading to the degrees of Medical Science and Doctorate.

The Department of Health provides annual operating grants of approximately $17.0 million to the Faculty of Medicine of Memorial University of Newfoundland. For the year ended 31 March 1997, this operating grant of $17.0 million represented 68% of the Faculty's total revenue and 84% of its operating revenues. In addition to the $17.0 million operating grant, the Department also provides annual funding of approximately $8.9 million for the training of post-graduate students. Although this funding is submitted in a separate budget by the Faculty, the funds are actually paid to the Health Care Corporation of St. John's with whom the students are training.

Our review indicated that the Department of Health does not have an adequate system of accountability over the grants provided to the Faculty of Medicine. For example:

- The Department is not requesting sufficient information to determine whether the Faculty is effectively spending operating grants for the intended purposes. Such information would include interim and annual audited financial information, and information on program objectives and accomplishments.

- The Department has not performed any audits of the Faculty's operations to assess the adequacy of management systems and controls and compliance with authorities.

3.20 Western Memorial Hospital Corporation

In our 1996 Annual Report to the House of Assembly, we reported on the results of our review of the Western Memorial Hospital Corporation. The audit identified significant problems at the Corporation, details of which were included in our 1996 Annual Report.

Our review in 1996 focused on the Corporation's financial statements for the year ended 31 March 1995, as audited by a public accounting firm, and subsequent transactions to 31 December 1995. At this time the Corporation was amalgamated with the new Western Health Care Corporation. Subsequent to this review, we requested a copy of the Western Memorial Hospital Corporation's audited financial statements for the period ended 31 December 1995 and copies of the Western Health Care Corporation's audited financial statements for the period ended 31 March 1996 and the fiscal year ended 31 March 1997. These financial statements would indicate the Corporation's surplus or deficit for each period, as well as the financial position at the end of each period.

Of particular interest is the extent to which the Corporation's debt has increased or decreased from the $4.5 million as at 31 March 1995, the amount of the Corporation's accumulated deficit, and the amounts owing from third parties and associated funds. During a Public Accounts Committee meeting on 9 September 1997, officials of the Corporation indicated that their line of credit was at $13.0 million.

We have been informed by officials of the Corporation and the Department of Health that audited financial statements for the period ended 31 March 1996 and the fiscal year ended 31 March 1997 are not available. It concerns us that given the significance of issues raised during our 1996 review, the audited financial statements of the Western Health Care Corporation for the period ended 31 March 1996 and the fiscal year ended 31 March 1997 are still not available as at 31 October 1997. In our opinion, without timely audited financial statements, the Corporation is not being accountable for the expenditure of large amounts of public funds and as a result is not fulfilling its responsibility.

3.21 Health Care Corporation of St. John's

On 2 December 1996, the Public Accounts Committee by resolution requested the Auditor General to conduct an inquiry into and report on the financial affairs of the Health Care Corporation of St. John's.

We commenced our review in January 1997 and forwarded our report to the Public Accounts Committee on 29 August 1997. On 4 September 1997, the Chairman of the Public Accounts Committee tabled the Report in the House of Assembly. Our review disclosed the following.

- There are significant financial implications associated with the restructuring of health care services in the St. John's region which is estimated to cost $130 million. The Health Care Corporation of St. John's anticipates operational savings of $20.52 million annually from the restructuring of health care services, of which $13.2 million will be used to finance the $130 million in capital costs, while the remaining $7.32 million will be redirected back into health care programs.

  We have three major concerns regarding the completeness and accuracy of information relating to the planned restructuring of health care services. These can be summarized as follows:

  - The $130 million does not include all costs relating to the restructuring. For example, it does not include the costs of acquiring the St. Clare's Mercy and Salvation Army Grace General Hospitals which were purchased in 1994 and 1996 respectively.

    There are also other significant costs not included in the $130 million such as the costs of closing the Salvation Army Grace General Hospital and the Dr. Charles A. Janeway Child Health Centre, the moving expenses to the new and renovated buildings, and the cost of capital equipment for the newly constructed and renovated facilities.

  - The Corporation has estimated that the restructuring of health care services will realize operational savings of $20.52 million annually.

    While annual savings of $20.52 million have been estimated, it is unclear as to what overall funding level has to be provided by the Government to the Corporation to yield the annual savings of $20.52 million. It is also unclear as to how these savings are going to be identified and measured to ensure they have been realized. This is especially significant since a portion of the savings are supposed to finance the capital cost of the project.

  - The estimated cost of restructuring has changed several times. The initial estimate to restructure the health care services in the St. John's region was $300 million in 1989. This was revised to $100 million in July 1996 and to $130 million in June 1997.

- The Corporation incurred a deficit of $4.8 million in 1996-97. It is also projecting deficits of $6.8 million in 1997-98 and $10 million in 1998-99. As a result, the cumulative deficit of the Corporation for the three-year period is expected to be $21.6 million.

  The Corporation was also experiencing problems in maintaining sufficient funds to meet its current obligations. Its cash flow problems are caused primarily by a combination of its deficit, its uncollected accounts, and the timing of the last monthly budget advance from the Department of Health. The Corporation's overdraft was highest in April 1997 and April 1996. Bank overdrafts for these two months were $10.0 million and $12.1 million respectively.

- We had initially intended to compare the Corporation's original budget, the final revised budget, and the year-end revenues and expenditures to identify the reasons for the Corporation's deficit of $4.8 million. However, since the information required to complete this analysis was not readily available and because of the frequency and significance of the changes made to the original budget, such an assessment was outside the scope of our review.

  In addition, we had also intended to compare salary expenditures for several years with the original and revised salary budgets for those fiscal years to determine whether total salaries paid by the Corporation had increased or decreased over the period. Given the significance of the Corporation's salary expenditures, and the three downsizing initiatives which occurred over the past three years, this information would indicate whether the total salaries paid by the Corporation had in fact decreased. However, we were unable to obtain the Corporation's original salary budget for 1996-97, and the original salary budget and actual salary expenditures for 1995-96.

  In March 1997, a Budget Review Committee comprised of representatives from the Corporation, the Department of Health and the Treasury Board Secretariat was established to carry out a similar exercise and conduct a comprehensive review of the Corporation's 1996-97 budget, review its projected costs, identify clinical impacts and prepare a three year budget forecast.

  We look forward to the report of the Committee which is expected to be completed near the end of 1997.

- As at 31 March 1997, the Corporation had accounts receivable totalling $18.7 million, comprised of $7.9 million from patients, $7.6 million from the Provincial Government, and $3.2 million from other sources. Our review indicated that amounts owing to the Corporation are not being collected on a timely basis. For example, $5.6 million of $7.9 million, or 70% of total patient receivables are over 30 days old. The Corporation also wrote off uncollectible accounts of $633,422 from 1 April 1995 through 31 December 1996 and, at the time of our review, was in the process of finalizing an additional write-off. In November 1996, the Corporation retained the services of a collection agency to assist it in the collection of delinquent accounts. Any amounts owed the Corporation which are determined to be uncollectible, are funded 100% by the Department of Health. As a result, funding by the Department could be decreased if the Corporation collected amounts owing to it.

- We reviewed 209 purchases with a dollar value of $29.4 million to determine compliance with the *Pubic Tender Act*.

  The Corporation did not tender for 79 of these purchases with a dollar value of $9.7 million as the were acquired from "the only available source." These 79 purchases along with another 91 purchases were reported to the Minister of Works, Services and Transportation, between 1 April 1995 and 31 December 1996, as being available from only one source. However, our review disclosed instances where there was insufficient information in the Corporation's files to fully support why the purchases were not publicly tendered.

3.22 Newfoundland Cancer Treatment and Research Foundation

The Newfoundland Cancer Treatment and Research Foundation was established in 1971 to conduct a program of cancer diagnosis, treatment and research. The Foundation is governed by an eight member Board of Trustees which is appointed by the Minister of Health. The Foundation operates province wide through clinics and treatment centres within existing health care facilities and also operates the Dr. H. Bliss Murphy Cancer Centre in St. John's. For the year ended 31 March 1997, total patient visits for the major clinics were reported at 14,598. For this same period, the Foundation reported revenue of $7.8 million, of which 90% was received from the Province, and expenditures of $8.7 million.

On 2 December 1996, the Public Accounts Committee of the House of Assembly passed a resolution requesting that we conduct a review of the financial affairs of the Foundation. Our review covered the period from 1 April 1995 to 31 March 1997. Our report on this review was presented to the Public Accounts Committee on 1 December 1997 and was tabled in the House of Assembly on 2 December 1997. Our review indicated the following.

- The Foundation has a combined fund deficit of $957,000 as at 31 March 1997, which includes accumulated vacation and severance pay of $507,000. The Foundation does not have any authority to incur a deficit.

  The Foundation's annual budget, which provides for the allocation of funding to the various programs, is not approved by the Board.

  The Foundation's annual report is not an accountability document as it is not issued on a timely basis and provides no linkage of results with objectives. In addition, this report is not tabled in the House of Assembly.

- The Foundation appoints newly recruited physicians at salary levels in excess of that authorized under the *Conditions of Employment for Salaried Physicians in Newfoundland and Labrador* without obtaining the required approval from the Department of Health.

- We reviewed 23 purchases over $7,500, with a dollar value of $971,511, to assess compliance with the *Public Tender Act*. One contract, in the amount of $417,500, was not awarded to the lowest bidder meeting tender specifications. In addition, there was no public tender called for another two contracts totalling $19,213. There were no exception reports filed with the Minister of Works, Services and Transportation for these three contracts and thus, these exceptions were not reported in the House of Assembly as required by the Act.

The Foundation did not tender another 11 purchases, totalling $259,250, which were all greater than $7,500. However, for these 11 purchases, the Foundation filed a public tender exception report with the Minister of Works, Services and Transportation. Ten of these reports indicated that the vendor was a sole-source supplier; however, for two of these purchases totalling $102,063, other sources were available and a public tender was therefore required. The other public tender exception report related to a moving company where it was stated that rates did not vary. However, quotations had been obtained and the supplier with the lowest quote was awarded the contract.

We also reviewed 10 purchases under $7,500 where the *Public Tender Act* requires the purchaser to obtain quotations from 3 suppliers or establish for the circumstance a fair and reasonable price for the goods or services. The Foundation did not obtain quotes for 1 of these 10 purchases.

Board expenditures of $80,211 were charged to the operating account which is funded by the Department of Health.

There is a lack of segregation of incompatible duties over the accounting services provided by the Health Care Corporation of St. John's on behalf of the Foundation. In addition, monitoring of expenditures by the Foundation is limited to a monthly review of variance reports. As a result of these weaknesses over the approval and monitoring process for expenditures, inappropriate or inaccurate expenditures may not be detected.

- There is no capital asset ledger and annual physical counts are not performed. As a result, there is currently no accurate account of the Foundation's capital assets.

  The Foundation does not have adequate insurance coverage over its capital assets due to recent significant capital assets acquisitions.

- The Foundation has not established any policies for the hiring of external consultants. Of the five consulting engagements reviewed, totalling $95,095, there were no proposal calls for four of these engagements. In addition, there were no signed written contracts for any of the engagements.

- The Foundation has entered into several agreements with universities, hospitals and individuals without obtaining the approval of the Lieutenant- Governor in Council as required under the *Newfoundland Cancer Treatment and Research Foundation Act*.

  The Foundation may only invest money in investments authorized under the *Trustee Act*. The Foundation invested $58,487 in a mutual fund which is not an authorized investment under the *Trustee Act*.

- Our review disclosed instances where there was no record that the Board was informed of certain activities of the Foundation and other committees of the Board.

  The Board often does not have a full membership as appointments to the Board are often delayed for a considerable period.

The Foundation is developing performance indicators that could be used in assessing its performance in relation to predefined objectives.

3.23 Workers' Compensation Commission

The Workers' Compensation Commission was established in 1951. In accordance with the *Workers' Compensation Act* and its supporting regulations, the Commission is responsible for administering programs for the payment of benefits to injured workers and dependents, rehabilitation of injured workers, setting rates and collecting employer assessments, and making investments necessary to ensure adequate funding for services. The Commission is governed by a seven member Board comprised of a chairperson, two employer representatives, two worker representatives and two members at large. In addition, there are two ex-officio members - the Chief Executive Officer of the Commission and the Assistant Deputy Minister of the Department of Environment and Labour responsible for Occupational Health and Safety. The Board is appointed by the Lieutenant-Governor in Council. The Commission reports to the House of Assembly through the Minister of Environment and Labour.

The Commission is funded through employer assessments and income earned on investments maintained in an investment portfolio. Of the $122.5 million in total revenue for the 1995 calendar year, 75.5% or $92.5 million came from regular assessments on employers' payroll to meet current year obligations, 10.9% or $13.4 million came from an additional assessment on employers' payroll to amortize the unfunded liability and 13.6% or $16.6 million came from the Commission's investment portfolio. There are approximately 13,000 registered employer accounts representing approximately 180,000 workers covered by Workers' Compensation programs.

Monies received form an Injury Fund which is used to pay all the expenses of the Commission, expenses of the Department of Environment and Labour for the Occupational Health and Safety Division, the Employer and Worker Advisors, the Statutory Review Committee and all expenses of the Department's Workers' Compensation Review Division. The Commission's total expenditures for the year ended 31 December 1995 were $106.7 million.

Our review of the Commission indicated the following.

The Commission has taken initiatives to strengthen its accountability to the House of Assembly. For the 1995 calendar year, the Commission prepared a report to demonstrate its performance relative to predetermined targets. The report was a good initial effort in providing more useful information to the House of Assembly; however, improvements are required so that all strategic objectives identified by the Commission have predetermined targets against which actual performance is reported.

In 1991, the Commission prepared a financial strategy to address its unfunded liability, which, at that time, had increased to $176 million. There were two significant initiatives implemented to address the unfunded liability. First, a special assessment, currently totalling $13 million annually, was put in place so that the unfunded liability could be fully funded by 2012 and secondly, to reduce the cost of workers' benefits, the income replacement ratio was reduced from 90% to 75% for the first 39 weeks and to 80% after 39 weeks. As at 31 December 1995, the unfunded liability was $117 million.

As a result of structural changes at the Commission, the staff complement has increased from 166 in 1990 to 223 in 1995. Also, salary costs have increased from $6.1 million in 1990 to $8.8 million in 1995.

Physical security at the Commission requires improvement.

The Commission is providing loans to employees, at prime plus one percent, for the purchase of computer equipment. During 1995, $98,000 in loans were advanced to employees for computer loans. Also in 1995, the Commission provided interest free loans totalling $1,300 to employees to cover the costs of tuition and books for career related training. There is no authority in the *Workers' Compensation Act* to provide these loans.

With minor exceptions, the Commission was generally in compliance with the *Public Tender Act and Regulations.*

The Commission does not have formal guidelines for the hiring of external consultants. Some of the consultants engaged by the Commission have been renewed on an annual basis without any public call for proposal.

3.24 Newfoundland Legal Aid Commission

The Newfoundland Legal Aid Commission was created under Section 3(1) of the *Legal Aid Act* and operates under that Act and Regulations. The affairs and operations of the Commission are under the direction of a Board of Commissioners consisting of five members appointed by the Lieutenant-Governor in Council and two ex-officio members, specifically the Deputy Minister of Justice and the Provincial Director of Legal Aid.

The purpose of the Commission is to establish and administer a plan to provide legal aid to residents who qualify under the *Legal Aid Act*. To obtain legal aid, an individual must complete an application providing a brief description of the legal problem and information on income, expenses and net assets. Each application for legal aid is evaluated in accordance with its legal merit and the applicant's financial eligibility, as outlined in the Act and Regulations.

Criminal, family and civil legal services are provided at nine area offices throughout the Province. These area offices are located in St. John's, Corner Brook, Gander, Grand Falls, Carbonear, Clarenville, Marystown, Stephenville and Happy Valley. Each area office is managed by an Area Director who is responsible for the general administration of legal aid in that area.

We completed our review of the Newfoundland Legal Aid Commission in March 1997. Our review indicated the following.

Controls over accounts receivable, totalling $337,322 as at 31 March 1997 (1996 - $301,391), are inadequate and the Commission has not been successful in collecting amounts owing to it. Accounts receivable include credit balances totalling $30,163 (1996 - $25,596), some of which are owing to clients but have not been paid. The Commission could not always provide client files to support the account receivable balances. Funds remain deposited in trust for cases that have been completed. These funds were never transferred from the trust account to the operating account.

The Commission provided a loan to an employee. Public money should not be used for employee loans.

The applicant assessment process is deficient in that income verification is not always documented and intake workers have not been provided with guidelines to determine the reasonableness of certain applicant expenses.

Accountability at the Newfoundland Legal Aid Commission requires improvement. The Commission does not prepare an annual report to show its actual results of operations compared to its objectives and demonstrate its accountability to the Minister, Government or the House of Assembly.

Improvements could be made to the Commission's management practices. There were instances of non-compliance with the *Legal Aid Act* and *Regulations*. For example, the Commission does not always require a determination of expenses and net assets in assessing the financial eligibility of applicants, the Commission does not provide an annual report to the Minister concerning its work and the Commission's Area Directors do not submit monthly or annual reports to the Provincial Director on the operations of the area offices. The Commission does not have conflict of interest guidelines for the Board and staff. Employee performance evaluations are not completed on a regular basis and employee position descriptions are not in place for all employees.

3.25 Newco Corporations - Middle Distance Fishing Vessels

The Department of Fisheries began a program in the late 1970's to evaluate the use of fixed-gear technology on mid-size vessels in the Newfoundland groundfish fishery. During 1987, the program was expanded with the construction, by Marystown Shipyard Limited, of two middle distance fishing vessels, the *Funk Island Banker* and *Belle Isle Banker*, that were specifically designed for Newfoundland conditions. As a result of a financing arrangement between the Province and a leasing company, the two vessels were purchased by Roylease Limited and leased back to the Province through two companies, Newco I and Newco II, which were created under the *Corporations Act*.

During 1988 and 1989 the program was further expanded with the construction, by Marystown Shipyard Limited, of two additional middle distance fishing vessels, the *Makkovik Banker* and *Nain Banker*. This time, the two vessels were purchased by Pitney Bowes Limited and leased back to the Province through two companies, Newco III and Newco IV, which were created under the *Corporations Act*.

The Province, through senior Government officials, held an 85% ownership interest in each of the four Newco corporations.

The Province's involvement with the Newco corporations is estimated to cost approximately $31.1 million to 31 March 1997. As at 31 March 1997, the Province was owed $5.6 million by Newco IV Corporation. The Province has also guaranteed the lease payments of Newco IV which have a principal balance of $3.0 million at 31 March 1997. In addition, the Province has written off $15.3 million dollars in advances and related interest charges to the Newco corporations and lost $7.2 million on the sale of the three middle distance vessels.

The remaining middle distance fishing vessel, the *Nain Banker*, was leased to a private interest under a one-year agreement commencing in April 1997. The agreement provides the operator with an option to enter into negotiations to purchase the vessel within the term of the agreement. There is also an option to extend the existing agreement for an additional one-year term.

3.26 Town of Pouch Cove

On 13 February 1997, the Public Accounts Committee of the House of Assembly passed a resolution requesting that we carry out a review of the administrative and financial operations of the Town of Pouch Cove. We commenced our review in February 1997 and the review covered the period from 15 November 1993 to 27 February 1997.

Our report on this review, together with Council's response, was presented to the Public Accounts Committee on 28 August 1997 and was tabled in the House of Assembly on 4 September 1997. Our review indicated the following.

- Council contravened the *Municipalities Act* by not approving the stipends paid to Councillors. Other payments to Councillors for reimbursement of personal expenses incurred in the conduct of municipal business were not always made in accordance with the *Municipalities Councillor Remuneration and Reimbursement Regulations*. We also identified 13 instances where Councillors were in a conflict of interest.

- The Town's cash management practices were inadequate. For example, deposits were not made on a timely basis. During the period of our review, cash shortages totalling $4,786 were identified. There may be other cash shortages caused as a result of unauthorized account adjustments, inadequate documentation, inadequate controls and a lack of a management trail.

  In addition, of $141,101 in adjustments and write-offs to tax accounts, only $17,261 was approved by Council as required under the *Municipalities Act.*

- Controls over payments and purchases require improvement. Payments were made in contravention of *The Public Tender Act* and the *Municipalities Act* and Council did not receive information on a regular basis to monitor actual expenditures in relation to its approved budget. We could not locate documentation to support the payment of 1,174 hours of overtime costing approximately $14,000.

- Capital expenditures of the Town were not always made in accordance with *The Public Tender Act* or the *Municipalities Act*. The Guidelines issued by the Department of Municipal and Provincial Affairs under the financing programs used to fund the Town's road paving and water and sewage projects were not always followed by the Town.

Chapter 4

Update on Prior Years' Report Items

This year we continued a process whereby the recommendations are monitored and the results reported within two years of the original report date. This chapter provides the results of this monitoring process relating to the recommendations contained in the Reports of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies for the Years Ended 31 March 1994 and 1995.

Newfoundland and Labrador
REPORT OF THE AUDITOR GENERAL
To the House of Assembly
for the Year Ended
31 March 1997

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Auditor General Act

1.1 Introduction

This Report has been prepared in compliance with the requirements of section 12 of the *Auditor General Act*. Section 12 requires that this Report outline significant matters noted during the course of examining the accounts of the Province, agencies of the Crown and other entities which, in the opinion of the Auditor General, should be brought to the attention of the House of Assembly.

In accordance with this provision of the Act, this Report contains those instances that have been observed in the course of audits and additional examinations of departments, agencies of the Crown and other entities, that are considered to be significant. An examination of each of these matters was performed in accordance with generally accepted auditing standards and, accordingly, included such tests and other procedures considered necessary in the circumstances. The instances reported should not be used as a basis for drawing conclusions as to compliance or non-compliance with respect to matters not reported. The instances observed are described in this Report under the department responsible.

Comments on the audit of the financial statements of the Province are contained in a separate report entitled *Report of the Auditor General to the House of Assembly on the Audit of the Financial Statements of the Province for the Year Ended 31 March 1997*. That report is also submitted to the Speaker of the House of Assembly to be tabled before the House. The submission of two separate reports results in more timely reporting on audits and additional examinations without the necessity to wait for the completion of the audit of the financial statements of the Province. This also provides an opportunity to periodically report to the House of Assembly.

1.2 Format of the Report

This Report contains five chapters and four appendices. A brief description of the contents of each follows.

Chapter 1 Auditor General's Overview

This chapter provides an introduction to the Report.

Chapter 2 Comments on Public Sector Accountability

This chapter contains comments and a recommendation relating to the systems of accountability within the public sector.

Chapter 3 Comments on Audits and Additional Examinations

The comments in this chapter pertain to the audit observations and recommendations resulting from audits of specific departments and agencies of the Crown. The departmental audits are listed in Appendix I while the financial statement audits and additional examinations of agencies of the Crown are listed in Appendix II.

Chapter 4 Update on Prior Years' Report Items

This chapter provides an update on action taken with respect to recommendations made in our 1995 and prior Reports.

Chapter 5 General Matters and Work of the Office of the Auditor General

This chapter addresses a number of general matters relating to the operations of the Office of the Auditor General including any special reports issued during the year and comments relating to the professional activities of the Office.

Appendices

I	Departmental Audits Performed by the Auditor General
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1.3 Work of the Office of the Auditor General

The Auditor General is the independent legislative auditor of Government, its departments and agencies of the Crown and Crown-controlled corporations. The Auditor General reports to the House of Assembly on significant matters which result from the examinations of these entities.

During the year an audit was conducted of the Public Accounts of the Province, which include the consolidated summary financial statements and the Consolidated Revenue Fund financial statements. Audits were also conducted of the financial statements of the agencies of the Crown listed in Appendix II. Observations resulting from the audits of financial statements are provided to the respective Deputy Ministers and Chief Executive Officers as the work is completed. These financial statement audits are conducted in accordance with the professional requirements promulgated by the Canadian Institute of Chartered Accountants.

We also conducted additional examinations of Government departments and agencies of the Crown, and issued management reports to Deputy Ministers and Chief Executive Officers. These examinations are performed on a cyclical basis and may include an evaluation of accountability relationships, management practices and control systems, and determination of compliance with legislation and other authorities.

In addition, section 14 of the *Auditor General Act* provides the Auditor General with the responsibility of conducting additional examinations and investigations of agencies of the Crown whose financial statements are audited by private sector auditors. Also, section 38 of the *Memorial University Act* provides that the Auditor General may conduct an additional examination and investigation of the Memorial University of Newfoundland.

Further special assignments may be conducted as requested by the Lieutenant-Governor in Council, the House of Assembly or the Public Accounts Committee in accordance with section 16 of the *Auditor General Act*.

As at 31 March 1997, there were approximately 163 agencies of the Crown and 290 municipal authorities in the Province. The Office audits the financial statements of 26 agencies of the Crown (see Appendix II), 65 are audited by private sector auditors (see Appendix III) and the financial transactions of the remainder are reflected in the financial statements of the Consolidated Revenue Fund.

Additional comments on the operations of the Office of the Auditor General are contained in Chapter 5 of this Report.

1.4 Update on Prior Years' Report Items

This chapter is included in the Report to provide information on the extent to which recommendations made in prior years' Reports to the House of Assembly have been implemented.

A process has been established within the Office of the Auditor General whereby recommendations will be monitored and the results reported within two years of the original report date.

Chapter 4 provides the results of this monitoring process relating to the recommendations contained in the Reports of the Auditor General for the years ended 31 March 1995 and prior.

1.5 Accountability

As in previous reports to the House of Assembly, I again express concern that the House of Assembly is not receiving sufficient, appropriate and timely information necessary to ensure accountability of Government departments, agencies of the Crown and Memorial University of Newfoundland.

The House of Assembly, as part of the budgetary process, approves funding for these entities and should receive information on how this funding is spent and what this funding has achieved. While considerable attention is given to the Government's budget, there is a lack of emphasis on receiving and reviewing how entities spent the monies which were approved during the budget process.

Although the House of Assembly has not been provided with adequate accountability information in the past, recent initiatives of the Government indicate that improvements will be made in the near future. In June 1997, the Minister of Finance and President of Treasury Board was directed, by Cabinet, to proceed with the implementation of a new authority and accountability framework for Government departments.

During the year, Government also established the Public Service Reform Initiative which focuses on organizational and structural issues which impact on how Government operates. This initiative is aimed at creating an improved framework to make the public service more efficient, effective and responsive to the goals and objectives of Government. One of three task forces that were established as part of this process will focus on the development of an accountability framework for Crown agencies. However, no action has been taken to establish a system of accountability over Memorial University of Newfoundland, which received $134 million in public funding for the year ended 31 March 1997.

Chapter 2 of this Report provides additional comments and my recommendation relating to a system of accountability for Government and its agencies.

1.6 Acknowledgements

I express my appreciation to the officials of Government departments, agencies of the Crown and other entities for the cooperation and assistance provided to my staff during the performance of our audits.

I express my appreciation to the Public Accounting firms which perform the financial statement audits of the various agencies of the Crown, for their cooperation in providing me with the information required by section 14 of the *Auditor General Act*.

I also extend my appreciation to my staff for the thorough and professional manner in which they have carried out their audit responsibilities.

2.1 Framework of Accountability

Introduction

Full accountability requires that Government, its departments and agencies of the Crown, and Memorial University of Newfoundland be held accountable for their use of public money and the delivery of their programs. In addition to providing annual audited financial statements, full accountability requires that Government and its entities be held accountable for the performance of their specific programs compared to their approved objectives.

In my previous reports to the House of Assembly, I expressed concern over the lack of information being provided to the House of Assembly on Crown agencies which are funded primarily by the public purse. The House of Assembly, as part of the budgetary process, approves funding for these agencies and should receive information on how this funding was spent and what this funding has achieved.

This year again I express concern over the lack of information being provided to the House of Assembly. While considerable attention is given to the Government's budget, there is a lack of emphasis on receiving and reviewing how agencies spent the monies which were approved during the budget process. Figure 1 provides a summary of the 1996 annual reports tabled in the House of Assembly for the Crown agencies which are primarily funded by Government.

Figure 1

Annual Reports by Sector Tabled in the House of Assembly 1996 Year End ($ Millions)

Sector	Number of Entities	Government Operating Grants	1996 Annual Reports
Health Care Boards	20	$ 608	0
School Boards and Related Entities	35	518	0
Colleges	5	50	0
Memorial University of Newfoundland	1	133	0
Other Crown Agencies receiving Government Operating Grants	24	244	7
Other Crown Agencies not receiving Government Operating Grants	25	0	3
Total	110	$1,553	10

Of the 24 entities receiving government operating grants, only 7 entities, receiving $157.9 million, had their reports tabled in the House of Assembly. In summary, the House of Assembly received reports on entities which had received $157.9 million of total funding of $1.553 billion. There were no reports tabled in the House of Assembly which related to the remaining $1.395 billion.

Most of the annual reports which are tabled in the House of Assembly do not provide adequate accountability information. Most provide general information on the entity and statistical information on its operations. The reports do not provide information which compares the original objectives of the entity with its actual performance.

In some cases, only the audited financial statements of the entity are tabled in the House of Assembly. Financial statements present the financial position and results of operations of the entity for the period covered by the statements. Financial statements do not provide information relating to an entity's performance in relation to its original objectives. Therefore, financial statements are only one part of a system of accountability.

In my previous Reports to the House of Assembly, I recommended that Government develop and the Legislature enact a framework of accountability for all public sector entities in the Province, including Government departments, agencies of the Crown and Memorial University of Newfoundland. This legislative framework should include:

- A strategic plan for the entity which is consistent with the policies and plans of Government and is linked to its vision and mission statement.
- Clearly defined objectives which relate to the entity's strategic plan and which are consistent with its legislative mandate.
- The establishment of performance measurement criteria written in terms that can be used to assess the entity's progress toward achieving its objectives.
- An annual operating plan which includes a description of the entity's annual operational objectives which are tied to its strategic plan. The annual operating plan should also include a financial budget by project, program area or activity and the identification of divisions or groups responsible for the identified activities.
- A reporting system which provides information on the delivery of programs and the achievement of objectives. This system should utilize the established performance measurement criteria and provide a clear link between the entity's plans, budgets and results. It should also provide annual accountability reports for the entity to the Minister responsible and to the House of Assembly on the extent to which the entity achieved its established objectives and mandate and has complied with its strategic and operational plans.
- An independent audit process that lends credibility to the accountability reports.

Accountability of Government Departments

In June 1997, the Minister of Finance and President of Treasury Board was directed, by Cabinet, to proceed with the implementation of a new authority and accountability framework for government departments. This accountability framework will include a process of annual business plans to be implemented as follows:

- For 1997-98, the institution of program review objectives and budgetary planning objectives. Departments will be held accountable for attaining results.
- For 1998-99, more formalized business plans will be implemented as part of the budgetary process.

During the year, Government also established the Public Service Reform Initiative which focuses on organizational and structural issues which impact on how Government operates. This initiative is aimed at creating an improved framework to make the public service more efficient, effective and responsive to the goals and objectives of Government. Three task forces have been established to develop framework policies as follows:

- Task Force on Organizational and Human Resource Management which focuses on the role of Government as employer. A number of projects have been established to address issues which impact employees in the public service. For example, the Task Force is working on the development of an approach to staff training and human resource planning within Government, and the exploration of recognition and classification systems.
- Task Force on Agencies and Boards which focuses on the development of an accountability framework for Crown agencies.

- Task Force on Central Agencies which focuses on the relationship of central agencies, such as Executive Council, with Government departments.

These task forces are responsible for providing recommendations to Government by the end of 1997.

Accountability of Crown Agencies

As indicated above, the Task Force on Agencies and Boards will focus on the development of an accountability framework for Crown agencies, and provide recommendations to Government as to an appropriate framework including rationale for identified components. I met with this Task Force on 26 February 1997 to discuss what components my Office would expect to see in an accountability framework.

Memorial University of Newfoundland

No action has been taken to establish a system of accountability over Memorial University of Newfoundland, which received $134 million in public funding for the year ended 31 March 1997.

Conclusion

Although the House of Assembly has not been provided with adequate accountability information in the past, recent initiatives of the Government, including the establishment of the Task Force on Agencies and Boards, indicate that improvements may be made in the near future.

Recommendation

Government should establish, and the House of Assembly should enact, a framework of accountability for government departments, Crown agencies and Memorial University of Newfoundland.

3.1 Monitoring Agencies of the Crown

Introduction

As at 31 March 1997 there were approximately 163 Crown agencies in the Province. Of these, 91 were required to prepare annual financial statements while 72 were considered non-financial and did not prepare financial statements. Any expenditures related to the operation of these 72 entities are included with those of the government department responsible for the entity and are audited annually as part of our audit of the public accounts of the Province.

Of the 91 entities required to prepare annual financial statements, 26 were audited by our Office while the remaining 65 were audited by private sector auditors.

Most of these entities do not have any requirement to report to the House of Assembly on the discharge of their responsibilities. As a result, a major role of this Office is to monitor these entities in order to provide some accountability to the House of Assembly. Section 14 of the *Auditor General Act* requires all private sector auditing firms to submit to our Office a copy of the audited financial statements and any management letters for all Crown agencies for whom they audit. These financial statements and management letters along with our Office's audits of Crown agencies provide the basis for our monitoring of all Crown agencies. The results of our monitoring activities are as follows.

Compliance with Section 14

As previously indicated, there were 65 entities as at 31 March 1997 which were audited by private sector auditors. However, there were actually 85 entities which had year ends occurring during the 1996-97 government fiscal year which were audited by private sector auditors who were required to provide to the Auditor General the audited financial statements and recommendations to management. The reduction to 65 as at 31 March 1997 resulted mainly from re-organization in the education sector during 1996-97. As at 31 October 1997, the required information had been received from the private sector auditors for 74 of the 85 entities. Figure 1 provides details of the information received.

Figure 1

Monitoring Agencies of the Crown
Crown Agencies Audited by Private Sector Auditors
Information for Years Ended 1 April 1996 to 31 March 1997

Information	Health Care	Education	Other	Total
Audited financial statements received	19	39	16	74
Audited financial statements not received	5	3	3	11
Total	24	42	19	85

The 11 agencies noted in Figure 1 include the following:

- Central West Health Care Institutions Board
- Labrador Health Services Board
- Western Health Care Corporation
- Peninsulas Health Care Corporation
- Western Regional Community Health Board
- Westviking College of Applied Arts, Technology and Continuing Education
- Cabot College of Applied Arts, Technology and Continuing Education

- Labrador College of Applied Arts, Technology and Continuing Education
- Credit Union Deposit Guarantee Corporation
- Newfoundland Hardwoods Limited
- Newfoundland Farm Products Corporation

In addition to not receiving the audited financial statements on the above 11 entities, three of these entities, the Western Health Care Corporation, Western Community Health Care Board and Newfoundland Hardwoods Limited, have not had audits completed and forwarded to our Office for the year ended 31 March 1996.

To date, information is not being received from the private sector auditors on a timely basis. Although the auditors' reports are normally signed within four months after year end, the statements are not sent to our Office until another four months after the audit report date, and in most cases, only after telephone follow-up or written correspondence from our Office.

For years ending between 1 April 1996 and 30 April 1997, our Office was responsible for auditing the financial statements for 26 Crown entities. As at 31 October 1997, the audits of 6 of the 26 entities had not been completed for the year ended 31 March 1997 since management did not have draft financial statements prepared for audit. These included:

- Enterprise Newfoundland and Labrador Corporation
- Enterprise Network Incorporated
- Farm Development Loan Board
- Fisheries Loan Board
- Office of the High Sheriff
- Bull Arm Site Corporation

Monitoring of Financial Information

In addition to the monitoring of all Crown entities, we also performed an analytical review of the audited financial statements which were available to us. In order to facilitate useful comparisons and analysis of data, a number of sectors were established for grouping similar entities. These sectors and financial information of the various Crown agencies are presented in Figure 2 and Figure 3. These figures do not include financial information for Western Health Care Corporation, Western Community Health Care Board, Newfoundland Hardwoods Limited, and Bull Arm Site Corporation.

Figure 2

Monitoring of Crown Agencies
Financial Position
Years Ended 1 April 1996 to 30 April 1997
($ 000's)

Sector	Number of Entities	Current Assets	Long-Term Assets	Current Liabilities	Long-Term Liabilities	Equity
Primary, Elementary & Secondary Education	35	$ 21,582	$629,010	$20,103	$26,685	$603,804
Colleges & Universities	6	84,934	229,447	23,918	14,137	276,326
Hospitals & Nursing Homes	20	60,500	268,358	93,259	142,476	93,123
Community Health Boards	3	7,327	2,007	6,224	3,149	(39)
Government Enterprises	16	138,471	2,715,357	346,409	1,925,307	582,112
Financial Entities	7	168,427	1,288,662	55,781	461,751	939,557
Insurance Entities	4	24,599	240,102	6,296	338,432	(80,027)
Judicial Entities	4	19,447	17,222	14,463	247	21,959
Pension Plans	2	15,352	1,679,353	4,586	0	1,690,119
Other Entities	10	11,381	436,743	19,353	357,054	71,717
Total Crown Agencies	107	$552,020	$7,506,261	$590,392	$3,269,238	$4,198,651

During our compilation and analysis of the above financial data, the following issues were highlighted:

- Of the 107 crown entities analysed, 21 entities reported a total bank indebtedness of $97.8 million, excluding long-term debt.

- The various hospitals, nursing homes and community health boards have different financial reporting formats and therefore revenue and expenditure classifications were inconsistent for analysis purposes. For example, one hospital board reported its expenditures by object (e.g. salaries and supplies), while another board reported its expenditures by department (e.g. administration and support services). The school boards, on the other hand, operated under one set of financial reporting policies and therefore comparisons amongst them were possible.

Figure 3

Monitoring of Crown Agencies
Operating Results
Years Ended 1 April 1996 to 30 April 1997
($ 000's)

Sector	Number of Entities	Revenues	Expenditures	Surplus (Deficit)	Provincial Funding
Primary, Elementary & Secondary Education	35	$531,320	$532,887	($1,567)	$516,984
Colleges & Universities	6	317,446	305,588	11,858	190,942
Hospitals & Nursing Homes	20	753,668	777,157	(23,489)	674,624
Community Health Boards	3	41,280	40,632	648	41,208
Government Enterprises	16	559,722	466,730	92,992	3,120
Financial Entities	7	173,024	97,180	75,844	22,141
Insurance Entities	4	127,210	108,984	18,226	213
Judicial Entities	4	30,401	33,226	(2,825)	5,394
Pension Plans	2	438,510	213,792	224,718	0
Other Entities	10	126,708	126,931	(223)	22,612
Total Crown Agencies	107	$3,099,289	$2,703,107	$396,182	$1,477,238

- On 1 January 1997, the Province established 10 new school district boards and dissolved the former 27 school boards. In doing this, the Province agreed to pay all the outstanding debt accumulated by these school boards and in April 1997 paid a total of $23.8 million to the 10 new boards.

- None of the previous 27 school boards reported an accrual for teachers' severance pay in their financial statements. As at 30 June 1997, accrued teachers' severance pay totalled approximately $85 million.

- Financial information for 31 March 1996 was used for three health care entities as the audited financial statements for 31 March 1997 had not been completed at the time of our review. These entities were Central West Health Care Institutions Board, Labrador Health Services Board and Peninsulas Health Care Corporation.

- Financial information for 31 March 1996 was used for three colleges as the audited financial statements for 31 March 1997 had not been completed at the time of our review. These entities were Westviking College, Cabot College and Labrador College.

Monitoring Management Letters

Section 14 of the *Auditor General Act* requires that management letters prepared by private sector auditors be submitted to our Office. Of the 85 entities audited by private auditing firms, 19 had no management letters issued, 6 entities had management letters issued with no control weaknesses reported, 49 had management letters with weaknesses reported, and 11 entities still had their management letters outstanding as they were not yet finalized. Of the management letters received by our Office from the private sector auditors, many reported control weaknesses such as inadequate segregation of duties, inadequate approval and reconciliation procedures relating to cash, accounts receivable and accounts payable, computer software and hardware deficiencies, and inadequate controls over certain trust accounts.

Of the 26 Crown agencies audited by our Office during 1996-97, 4 entities had management letters issued with no control weaknesses reported, 16 had management letters with weaknesses reported, and 6 entities still had their management letters outstanding as they were not yet finalized. Examples of significant weaknesses included non-compliance with governing legislation in that annual reports were not always submitted, and inadequate controls over capital assets.

3.2 Monitoring Expenditures of the Consolidated Revenue Fund

Introduction

As part of our audit of the financial statements of the Consolidated Revenue Fund (CRF), we perform tests and reviews of the expenditures made by the various departments. Figure 1 outlines expenditures, by category, recorded in the Consolidated Revenue Fund financial statements for the years ended 31 March.

During the past year, we obtained expenditure information from Government's accounting system relating to grants and subsidies, purchased services, and professional services. Details of the expenditures in each of these categories are provided as follows.

Figure 1

Consolidated Revenue Fund Expenditures
By Category
Years Ended 31 March
($ Millions)

Consolidated Revenue Fund Expenditures								
Category	1990	1991	1992	1993	1994	1995	1996	1997
Salaries And Benefits	$ 396	$ 398	$ 401	$ 407	$ 334	$ 361	$ 347	$ 357
Transportation and Communication	37	35	34	33	30	33	33	32
Supplies	64	62	58	57	49	51	48	48
Professional Services	76	83	85	101	90	64	57	49
Purchased Services	179	163	152	188	172	183	182	146
Property and Furnishings	73	71	79	33	24	43	31	19
Loans and Advances	65	62	35	0	0	0	7	0
Allowances and Assistance	268	253	282	318	345	372	382	403
Grants and Subsidies	1,492	1,705	1,770	1,801	1,744	1,770	1,780	1,754
Debt Expenses	456	482	488	541	800	904	720	719
Information Technology	0	0	0	0	0	27	19	20
Bad Debts	0	0	0	89	33	33	26	80
Total	$3,106	$3,314	$3,384	$3,568	$3,621	$3,841	$3,632	$3.627

Source: Consolidated Revenue Fund financial statements

Grants and Subsidies

Government has established programs which provide grants or subsidies to various agencies of the Crown, private corporations and individuals. These payments are made to health care boards for the operation of the Province's hospitals, to school boards for the operation of the Province's schools and teachers' salaries, to the colleges and Memorial University of Newfoundland, and to certain agencies of the Crown for operational funding. Other grants and subsidies are paid to private corporations and individuals in accordance with Government support programs.

As indicated in Figure 1, payments for grants and subsidies average approximately $1.7 billion each year and represent approximately 49% of the total expenditures in the Consolidated Revenue Fund.

During the year we commenced a process of monitoring and reviewing payments made for grants and subsidies. Figure 2 shows, by department, payments made for grants and subsidies for the year ended 31 March 1997 totalling $1.75 billion.

Figure 2

**Grants and Subsidies Expenditures By Department
Year Ended 31 March 1997
($ 000's)**

Grants and Subsidies Expenditures by Department	
Department	Amount
Health	$ 834,401
Education	675,449
Municipal and Provincial Affairs	134,047
Development and Rural Renewal	29,617
Finance	11,954
Newfoundland and Labrador Housing Corporation	11,600
Works, Services and Transportation	11,274
Tourism, Culture and Recreation	10,201
Industry, Trade and Technology	9,366
Forest Resources and Agrifoods	7,256
Social Services	6,022
Justice	5,680
Fisheries and Aquaculture	3,709
Mines and Energy	1,704
Legislative	941
Executive Council	425
Environment and Labour	389
Government Services and Lands	55
Total	$1,754,090

Source: Government's Financial Management Information System

We also summarized the payments of grants and subsidies by the type of entity receiving the payment for the year ended 31 March 1997. The results of this summary are outlined in Figure 3.

Figure 3

Grants and Subsidies Expenditures
By Type of Entity
Year Ended 31 March 1997
($ 000's)

Types of Entities Receiving Grants and Subsidies	
Type of Entity	Amount
Hospitals and Health Services Boards	$604,857
Teachers' Payroll	360,991
Newfoundland Medical Care Commission	150,439
School Boards	140,492
Memorial University of Newfoundland	134,336
Municipalities	134,047
Colleges	45,112
Community Health Boards	30,924
Newfoundland and Labrador Housing Corporation	11,600
Labrador Agreement and Native Peoples Support	10,595
Newfoundland Municipal Financing Corporation	9,000
Canadian Blood Agency	8,101
Newfoundland Cancer Treatment and Research Foundation	5,861
Newfoundland Legal Aid Commission	5,393
Provincial Public Libraries Board	5,355
Newfoundland Farm Products Corporation	4,826
Newfoundland Ocean Enterprises Limited	3,487
Newfoundland Industrial Development Corporation	3,000
The John Cabot (1997) 500th Anniversary Corporation	2,975
Economic Recovery Commission	2,884
Ferry and Transportation Operations	2,322
Educational Organizations	2,022
Canada-Newfoundland Offshore Petroleum Board	1,556
Atlantic Canada Equity Fund	956
C. A. Pippy Park Commission	800
Newfoundland and Labrador Arts Council	478
The Enterprise Network Inc.	469
Fisheries Loan Board	385
Advisory Council on The Economy	317
Other Grants Under $300,000 Each Paid to Over 3000 Individuals or Organizations	70,510
Total	$1,754,090

Source: Government's Financial Management Information System

Figure 4 provides the names of all entities which received funding in excess of $10 million.

Figure 4

Expenditures on Grants and Subsidies
Payments in Excess of $10 Million
Year Ended 31 March 1997
($ 000's)

Entities Which Received in Excess of $10 Million	
Entity	Amount
Health Care Corporation of St. John's	$267,175
Newfoundland Medical Care Commission	150,439
Memorial University of Newfoundland	134,336
Western Health Care Corporation	82,517
Central West Health Care Corporation	51,309
Central East Health Care Corporation	39,159
Peninsulas Health Care Corporation	35,997
Avalon Health Care Corporation	32,963
Grenfell Regional Health Care Corporation	23,942
Labrador Health Services Board	23,109
Hoyles-Escasoni Complex	18,558
Cabot College of Applied Arts	18,553
Community Health - St. John's	15,166
City of St. John's	12,479
Central Newfoundland Regional Community Health Board	11,974
St. John's Roman Catholic School Board	11,704
Newfoundland and Labrador Housing Corporation	11,600
Westviking College of Applied Arts	11,209

Figure 4 (cont'd)

Entities Which Received in Excess of $10 Million	
Entity	Amount
Corner Brook City Council	11,085
Eastern Regional Community Health Board	10,436
Grants Under $10 Million Each Paid to Over 3,200 Organizations or Individuals	780,380
Total	$1,754,090

Source: Government's Financial Management Information System

Purchased Services

Purchased services includes such services as heat and light, general maintenance, printing, vehicle rentals and repairs, advertising, and insurance. As indicated in Figure 1, payments for purchased services totalled $146 million for the year ended 31 March 1997. Figure 5 shows, by department, payments made for purchased services for the year ended 31 March 1997.

Figure 5

Purchased Services Expenditures By Department Year Ended 31 March 1997 ($ 000's)

Purchased Services Expenditures by Department	
Department	Amount
Works, Services and Transportation	$ 95,115
Forest Resources and Agrifoods	9,585
Tourism, Culture and Recreation	7,229
Education	5,578
Health	5,265
Social Services	4,953
Justice	4,790
Municipal and Provincial Affairs	2,747
Development	2,342
Government Services and Lands	2,322
Industry, Trade and Technology	1,610
Fisheries and Aquaculture	1,144
Executive Council	823
Mines and Energy	722
Environment and Labour	702
Legislative	324
Public Service Commission	307
Finance	288
Consolidated Fund Services	16
Total	$145,862

Source: Government's Financial Management Information System

We also summarized the payments for purchased services to show all entities which received payments in excess of $1 million. These entities are listed in Figure 6.

Figure 6

Purchased Services Expenditures Payments in Excess of $1 Million Year Ended 31 March 1997 ($ 000's)

Entities Which Received in Excess of $1 Million	
Entity	Amount
S M Construction	$10,950
Nfld Light and Power	6,305
Pennecon Ltd.	5,823
Western Construction Co. Ltd.	5,389
Penney Paving - Mackinsons	3,789
Merit Management Inc.	3,365
Provincial Paving Ltd.	3,302
Memorial University of Newfoundland	3,237
Target Marketing Inc.	3,113
H J O'Connell Construction Ltd.	2,594
Modern Paving Ltd.	2,346
McNamara Construction Ltd.	2,298
Labrador Construction Company	1,927
Concord Paving Ltd.	1,874
Cabot College of Applied Arts	1,739
Barkers Construction Limited	1,720
Marsh & McLennan - Bowring Ins.	1,655
Coady' s Construction and Excavating Ltd.	1,595
Trident Construction Limited	1,560
Emery Construction	1,516
Marine Contractors Inc.	1,026
Enterprise Newfoundland and Labrador Corporation	1,014
Nova Services ltd.	1,002
Payments less than $1 Million made to over 5,800 entities or individuals	76,723
Total	$145,862

Source: Government's Financial Management Information System

Professional Services

Professional services generally include the fees and expenses of those engaged in a specialty profession such as accountants, doctors, lawyers, and engineers who provide a service, a report or advice to Government. As indicated in Figure 1, payments for professional services totalled $49 million for the year ended 31 March 1997. Figure 7 shows, by department, payments made for professional services for the year ended 31 March 1997.

Figure 7

Professional Services Expenditures By Department Year Ended 31 March 1997 ($ 000's)

Professional Services Expenditures by Department	
Department	Amount
Justice	$39,244
Works, Services and Transportation	1,952
Health	1,558
Environment and Labour	1,077
Industry, Trade and Technology	708
Consolidated Fund Services	706
Forest Resources and Agrifoods	627
Development and Rural Renewal	585
Executive Council	477
Municipal and Provincial Affairs	436
Education	344
Tourism, Culture and Recreation	319
Fisheries and Aquaculture	302
Mines and Energy	298
Government Services and Lands	293
Social Services	206
Finance	130
Public Service Commission	77
Legislature	70
Total	$49,409

Source: Government's Financial Management Information System

We also summarized the payments of professional services to show all entities which received payments in excess of $100,000. These entities are listed in Figure 8.

Figure 8

Professional Services Expenditures Entities Paid in Excess of $100,000 Year Ended 31 March 1997 ($ 000's)

Entities Which Received in Excess of $100,000	
Entity	Amount
Receiver General for Canada (RCMP)	$37,527
NewTel Information Solutions Ltd.	875
Patterson Palmer Hunt Murphy	598
Memorial University of Newfoundland	403
Newfoundland Design Associates Ltd.	307
Health Care Corporation of St. John's	284
Jerrett and Associates	270
Economic Recovery Commission	190
Benson Myles	151
Bae-newplan Group Ltd	148
Ernst & Young	141
Venture Architects	140
KPMG Management Consultants	139
Milner Fenerty	128
Bull Arm Site Corporation	126
Nova Consultants Inc	123
O'Reilly, Noseworthy	115
Atlantic Provinces' Transportation Commission	110
Payments Less Than $100,000 to Over 740 Entities or Individuals	7,634
Total	$49,409

Source: Government's Financial Management Information System

Treasury Board Secretariat

3.3 Special Warrants

Introduction

The common parliamentary means of providing spending authority to government is through the annual passing of supply acts. This involves having the Members of the Legislature vote on the government's funding requests. Approval by a majority of the Members of the House of Assembly is needed to pass an Act.

There are three types of supply acts which are usually approved by the Legislature each year. These are the main *Supply Act*, the *Interim Supply Act* and the *Supplementary Supply Act*. Each of these can be described as follows:

- *Supply Act*

  The main *Supply Act* provides the legal authority for Government to spend public funds after the Budget is approved by the Legislature.

- *Interim Supply Act*

  In the event that a fiscal year starts before the approval of the main *Supply Act*, the *Interim Supply Act* is a mechanism whereby funding can be provided to allow Government programs to continue at the equivalent of their current levels.

- *Supplementary Supply Act*

  In addition to the main *Supply Act* and the *Interim Supply Act*, a *Supplementary Supply Act* provides legislative authority for government to fund new and continuing services where there is no appropriation or insufficient appropriation for such services.

Findings

Special Warrants

Through the use of a "special warrant", the government can authorize itself to spend public money without obtaining the *prior* approval of the Legislature. Section 28 of the *Financial Administration Act* outlines two instances where a special warrant can be approved and additional funding can be provided to Government.

- Section 28(2) states where the sum appropriated by the Legislature for a **continuing service** is insufficient to meet requirements and there are no countervailing savings available, and the necessity is urgent, then the Lieutenant-Governor in Council may order that a special warrant be prepared for the Lieutenant-Governor's signature.

- Section 28(3) states where the Legislature is not in session or when the House of Assembly has been adjourned for more than 30 days, and an expenditure not foreseen and not provided for by the Legislature for a **new service** is urgently and immediately required for the public good, then the Lieutenant-Governor in Council may order that a special warrant be prepared for the Lieutenant-Governor's signature. The minister having charge of the new service must be of the opinion that the necessity is urgent and if not made, grave damage to the interests of the Crown or the public will result.

There were seven special warrants totalling $75.7 million issued in the 1996-97 fiscal year, all of which were issued in March 1997. Figure 1 provides information on these special warrants.

Figure 1

Special Warrants by Department
Year Ended 31 March 1997

Department	Details	Section 28(2) (continuing service)	Section 28(3) (new service)	Total	Date of Special Warrant
Development and Rural Renewal	To provide additional funds to the Enterprise Development Fund for strategic enterprise development opportunities.	$10,000,000		$10,000,000	10 March 1997
Education	To provide additional funds for: - teaching services $16,000,000 - funds to schools for debt/equipment $11,500,000 - grants to Memorial University of Newfoundland's Opportunity Fund $ 5,300,000	32,800,000		32,800,000	10 March 1997
Finance	To provide $10 million in funding for the Voluntary Departure Program. To provide $12 million to facilitate privatization and divestiture activities of the Newfoundland Industrial Development Corporation ($3,000,000) and provide a capital grant to the Newfoundland Municipal Financing Corporation ($9,000,000).	10,000,000	12,000,000	22,000,000	10 March 1997 for the $10 million 7 March 1997 for the $12 million
Health	To provide additional funds for payments to rural physicians ($1,000,000) and the purchase of urgently needed health care facilities equipment ($2,500,000).	3,500,000		3,500,000	10 March 1997
Municipal and Provincial Affairs	To provide additional funds for transition assistance to the cities of St. John's and Corner Brook in respect of fire protection services.	4,000,000		4,000,000	10 March 1997
Newfoundland and Labrador Housing Corporation	To provide additional funds to offset a budgetary shortfall for the 1996-97 fiscal year.	3,400,000		3,400,000	10 March 1997
Total Special Warrants for 1996-97 fiscal year		$63,700,000	$12,000,000	$75,700,000	

Source: 1996-97 Special Warrants

Figure 2 provides summary information on special warrants for the last five years. This Figure indicates that, unlike previous years, all special warrants issued in 1996-97 were issued in March.

Figure 2

Special Warrants
Years Ended 31 March

Year	Section 28(2) (continuing service)	Section 28(3) (new service)	Total number of Special Warrants	Total Special Warrants	Special Warrants Issued in March of each Year
1993	6	1	7	$ 42,360,000	$ 2,500,000
1994	1	1	2	40,000,000	3,500,000
1995	11	2	13	57,855,000	30,381,700
1996	9	1	10	32,516,000	4,100,000
1997	6	1	7	75,700,000	75,700,000
Totals	33	6	39	$248,431,000	$116,181,700

Source: Public Accounts

All special warrants issued are included in the next ensuing *Supplementary Supply Act*, which is presented to the Legislature for approval. The *Supplementary Supply Act* for $75.7 million in special warrants for the 1996-97 fiscal year was enacted on 11 December 1997.

Nature of Funding Provided Under Special Warrants

Of the $75.7 million in special warrants issued in 1996-97, $36.9 million were issued although it appears there was not an urgent requirement for the funding. This $36.9 million was provided to departments as follows:

- Finance	$12.0
-Development and Rural Renewal	10.0
-Housing Corporation	3.4
-Education	11.5
	$36.9 million

This conclusion is based on our review of the circumstances surrounding these special warrants and also on consideration of the delay from the date on which the special warrants were authorized to the dates the funding was used. Since it appears the funding was not urgently required, it could have been included in the 1997-98 budget. As a result, these special warrants do not appear to have been issued in accordance with the requirements of the *Financial Administration Act*. Details relating to these special warrants are as follows:

- Our review of the $12 million special warrant for the Department of Finance dated 7 March 1997, and discussions with officials of the Department, disclosed that $9 million was transferred to the Newfoundland Municipal Financing Corporation and $3 million was transferred to the Newfoundland Industrial Development Corporation on 31 March 1997, with both expenditures being charged to the 1996-97 year.

  The documents supporting the special warrant indicated that the $12 million was urgently required to provide a capital grant of $9 million to the Newfoundland Municipal Financing Corporation to establish a reserve fund to be used to assist with the restructuring of debt due to the Corporation from municipalities in financial difficulty. The remaining $3 million was paid to the Newfoundland Industrial Development Corporation to facilitate privatization/divestiture activities. By the end of October 1997, the $9 million transferred to the Newfoundland Municipal Financing Corporation and the $3 million transferred to the Newfoundland Industrial Development Corporation had not been used.

- Our review of the $10 million special warrant for the Department of Development and Rural Renewal dated 10 March 1997, and discussions with officials of the Department, disclosed that this amount was transferred to the Enterprise Development Fund, administered by the Department, with the expenditure being charged to the 1996-97 year. The documents supporting the special warrant indicated that the $10 million was urgently required to provide additional funds to the Enterprise Development Fund for strategic enterprise Development opportunities. By the end of October 1997, less than $1 million of the $10 million had been spent.

- Our review of the $3.4 million special warrant for the Newfoundland and Labrador Housing Corporation dated 10 March 1997, disclosed that the warrant was required for purposes of providing additional funds to the Corporation to offset a budgetary shortfall for the 1996-97 fiscal year. The documents supporting the special warrant indicated that the funding was urgently required for the purpose noted. Based on our review of the financial statements of the Corporation for the year ended 31 March 1997, it appears that the funding was not urgently required for that year.

- Our review of the $11.5 million for the Department of Education dated 10 March 1997, and discussions with officials of the Department, disclosed that $9 million was transferred to the various school boards for purposes of debt reduction and $2.5 million was transferred to the various school boards to purchase computer equipment. The documents supporting the special warrant indicated that the funding was urgently required relating to the purposes noted.

  With respect to the debt reduction funding of $9 million, payments were not made to the individual school boards until 9 April 1997. Since the $9 million was not paid until the next fiscal year, it appears that these funds were not urgently required in the 1996-97 fiscal year.

  In the case of the school board equipment funding of $2.5 million, Department officials indicated that there was some concern as to whether all school boards receiving the funding had acquired the related equipment. At report date, the Department was following up with the school boards to determine whether the funds had been expended.

With regard to the Province's matching contribution of $5.3 million to the University's Opportunity Fund, our review indicated that the original authority for the contribution, Order in Council 95-0496 dated 11 May 1995, provided for a maximum contribution in any one year of $5 million. In January 1997, the Department of Education advised the University that the planned contribution for 1996-97 was $1.5 million. However, the Government provided $1 million in June 1996 and additional funding of $5.3 million through the special warrant for a total of $6.3 million. This exceeded the $5 million maximum contribution stipulated in the Order in Council.

Impact on Government's Financial Statements

Special warrants as provided for in the *Financial Administration Act*, are intended to be issued to fund expenditures of an urgent and immediate nature.

Expenditures authorized by special warrants will be recorded as expenditures in the financial statements of the Consolidated Revenue Fund in the same year that the warrant is issued. As a result, these expenditures will decrease surpluses or increase deficits in the year in which the warrant is issued.

Because special warrants authorize expenditures that impact the reported surplus or deficit in the financial statements of the Consolidated Revenue Fund, the issuance of special warrants should be in compliance with the *Financial Administration Act*.

Treasury Board Secretariat's Response

The Legislature has granted authority to Government to issue Special Warrants when certain circumstances are met. This authority is clearly outlined in the Financial Administration Act. *In each case where a Special Warrant is issued, the relevant Minister must provide a statement indicating that the need for the Special Warrant is urgent. In addition, the Legislature requires, through the* Financial Administration Act, *that Government table Special Warrants in the Legislature within certain time frames.*

The need for Special Warrants will inevitably arise from time to time, and a review of our records indicates that Special Warrants have, in fact, been issued in most years.

You have made some comments that a large number of Special Warrants were issued in March 1997, in contrast to the experience of prior years, when Special Warrants may have been more evenly distributed through the year. While this is an accurate observation on your part, we do not believe it indicates anything particularly significant. In fact, Government had made a very strong commitment to sound financial management in the 1996-97 Budget, and was extremely reluctant to use Special Warrants throughout the year, in order to help maintain financial discipline. You may also be aware that Government put in place a contingency reserve in the 1996-97 Budget, which was used to deal with certain unforeseen developments. Consequently, we do not believe there is anything significant resulting from the fact that there was a large number of Special Warrants in March.

A number of comments make the claim that, in your opinion, the need for certain of the expenditures authorized by Special Warrant was not urgent. However, in all cases appropriate statements to this effect had been prepared by Ministers, and were tabled in the House of Assembly. We are not sure of any question having arisen of this nature in that forum.

We are not aware of any guidelines that would be helpful in determining what would constitute an urgent requirement. Presumably, in this case, the appropriate Ministers felt there was an urgency, and the House of Assembly obviously concurred. Accordingly, we believe that the Special Warrants meet the requirements of the Financial Administration Act.

You have made some comments that Government paid an amount to Memorial University for its Opportunity Fund in excess of what was authorized by Order in Council 95-0496. The total payment of $6.3 million is supported by the 1996-97 Estimates, as tabled in the House of Assembly for $1 million, and by the additional $5.3 million which was approved by Order in Council 97-155, and the Special Warrant. The Legislature subsequently passed supplementary supply to allow for this total payment. Consequently, the actions taken by Government in authorizing the additional payment, at the Cabinet level, have the effect of removing the limit initially placed on contributions to this fund. We believe these payments are in order.

In our view the requirements of the Financial Administration Act *were followed in these cases, and the Special Warrants are in compliance with the Act. In addition, the payments relating to the appropriations authorized by the Special Warrants were properly accounted for in the Consolidated Revenue Fund. The deficit reported in the Consolidated Summary Fund Financial Statements is not affected by any amounts unexpended in the applicable Crown Entities. This is because of the consolidation process.*

3.4 The Privatization of Newfoundland and Labrador Computer Services Limited

Introduction

On 13 October 1994, Government announced the completion of negotiations for the sale of all the shares of Newfoundland and Labrador Computer Services Limited (NLCS) to NewTel Enterprises Limited (NewTel) and its consortium partners Bell SYGMA Inc. (Sygma) and Andersen Consulting (Andersen), representing 80%, 10% and 10% ownership respectively. NewTel and its consortium partners incorporated a new company called NewTel Information Solutions (NIS).

As a result of the privatization of Newfoundland and Labrador Computer Services Limited, Government entered into several legal agreements whereby the Province would receive the following:

- $9 million for the shares of NLCS with the building remaining the property of Government;
- $35 million in new information technology (IT) business to be brought to the Province over seven years by the partners purchasing NLCS ($15 million through NewTel, $12 million through Andersen, $5 million through Sygma, and $3 million in research and development to be contracted with NIS by Andersen). Figure 1 indicates the new business commitments defined in the Industrial Benefits Agreement which were to be achieved by the consortium partners over the term of the Agreement and the commitments which were to be achieved by 31 March 1997.

Figure 1

Industrial Benefits Agreement
Total Commitment By Consortium Partners Over the Term of Agreement and Scheduled Commitments to 31 March 1997

Consortium Partner	Total Commitment Over Term Of Agreement	Scheduled Commitment To 31 March 1997
Andersen - New Business	$12,000,000	$3,700,000
- R&D Centre	3,000,000	3,000,000
Sygma - New Business	5,000,000	2,400,000
NewTel - New Business	15,000,000	5,000,000
Total	$35,000,000	$14,100,000

Source: Industrial Benefits Agreement and the Industrial Benefits Agreement Annual Report - 31 March 1997 (Unaudited)

- the creation of 85 new jobs (20 by the third year, an additional 40 by the end of the fifth year and another 25 by the end of the agreement) and an additional 27 person years of employment over the first three years of the agreement;
- from the new company, NIS, a commitment to subcontract $9 million in Government work and an additional $12.2 million in non-Government work over the term of the agreements, to 31 March 2002 as shown in Figure 2; and

Figure 2

Industrial Benefits Agreement
Subcontracting Commitments for Government and Non-Government Work
($ Millions)

Term	Government Work	Non-Government Work	Total
July 1, 1994 to March 31, 1995	$ 0.6	$ 0.4	$ 1.0
April 1, 1995 to March 31, 1996	1.2	1.2	2.4
April 1, 1996 to March 31, 1997	1.2	1.6	2.8
April 1, 1997 to March 31, 1998	1.2	1.8	3.0
April 1, 1998 to March 31, 1999	1.2	1.8	3.0
April 1, 1999 to March 31, 2000	1.2	1.8	3.0
April 1, 2000 to March 31, 2001	1.2	1.8	3.0
April 1, 2001 to March 31, 2002	1.2	1.8	3.0
Total Commitment	$9.0	$12.2	$21.2

Source: Industrial Benefits Agreement

- $587,000 annual building lease rental upon Government's completion of an approximate $2.1 million building expansion project.

In addition, the Share Purchase Agreement entitles Government to have a representative on the Board of Directors of NIS during the term of the Service Level Agreement which covers the period from September 20, 1994 to March 31, 2002.

For their part, Government and Memorial University of Newfoundland have contracted with NIS to purchase a minimum of $17.5 million annually in IT services during the term of the Service Level Agreement.

Additionally, NIS remains owned, operated and managed as a Newfoundland company, with benefits to be derived from alliances with Andersen and Sygma to strengthen the local IT industry. All the assets of NewTel Communications Limited's IT business including about 80 staff were transferred to NIS.

NewTel Enterprises Limited (NewTel) is providing an ongoing supplier development program which is available to local IT companies. The investment in technology upgrading and human resources allows access to new national and international markets.

Scope and Objectives

During 1997 we completed a follow-up review of the privatization of NLCS. The objectives of our review were to:

- determine whether all parties have complied with the agreements and to review the process Government has in place to monitor this compliance;
- determine whether Government has received the same level of service for the same price as required by the Service Level Agreement; and
- identify performance indicators (other than those included in the agreements) which would indicate whether the objectives of the privatization (e.g. stimulation of IT industry) have been met.

The most significant aspect of the privatization of NLCS is to ensure that Government receives the future benefits which it has negotiated and which are reflected in the agreements with NewTel.

Conclusions

Compliance With and Monitoring of Agreements

Government has not verified the information contained in the annual reports provided by NIS relating to the progress on the commitments of each party under the Industrial Benefits Agreement. As a result, Government has not determined whether it is receiving the benefits it negotiated under the Agreement in the 1994 privatization of NLCS.

The annual Industrial Benefits Agreement reports provided by NIS, although not verified by Government, indicated the following issues:

- Andersen has not provided any of its $3 million commitment to establish a research and development centre within NIS by 13 October 1997, including the creation of 27 person years of employment in the first three years of the Agreement.

- Sygma has only achieved approximately $1 million of its required $2.4 million commitment to bring new business into this Province by 31 March 1997.

- The reports do not provide any information to indicate whether Andersen and Sygma are using NIS as their exclusive representative in the Province and preferred representative in Atlantic Canada as required by the Industrial Benefits Agreement.

For the year ended 31 March 1997, Treasury Board Secretariat indicated that Government did not provide NIS with the $17.5 million in revenue as required under the Service Level Agreement. Under the Agreement, failure by Government to provide the $17.5 million in revenue to NIS in 1996-97 allows NIS to reduce its subcontracting requirements under the Industrial Benefits Agreement of $2.8 million in 1996-97 by the amount of the shortfall in the revenue commitment. Also, NIS' commitment to maintain existing employment levels and establish new jobs as outlined in the Industrial Benefits Agreement shall cease. NIS has not used the remedies which are available to it under the Service Level Agreement.

Although the Share Purchase Agreement entitles Government to have a representative on the Board of Directors of NIS, Government has not had a representative appointed to the Board since the fall of 1996.

Our review indicated that the provisions of the following agreements have been complied with:

- Share Purchase Agreement;
- Pension Agreement;
- Software Trust Agreement; and
- Building Lease Agreement.

Service Levels and Price

The initial rates charged by NIS for services allows Government to purchase, in the fiscal year ended 31 March 1996, the equivalent quantity of services provided in the fiscal year ended 31 March 1994 for approximately the same total cost on an annualized basis.

Under the Service Level Agreement, NIS is required to maintain service levels comparable to those provided by NLCS at the time of privatization. An independent evaluation of the Mainframe Computing portion of these services, covering the period from August 1994 to May 1995, was completed by a consultant in December 1995. The consultant reported that the service provided by NIS did meet the requirements of the Agreement. Government has not verified the service levels reported by NIS since the period covered by the consultant's report. However, Treasury Board Secretariat officials indicated that they have not received any complaints from Government IT administrators regarding service levels provided by NIS.

Stimulation of the IT Industry

One of Government's objectives of the 1994 privatization of NLCS was to stimulate growth in innovative technologies and information industries in the Province. Government has identified performance indicators to measure growth in the IT industry in the Province since 1994; however, information on these performance indicators has not yet been gathered.

Findings and Recommendations

Compliance With and Monitoring of Agreements

1. Share Purchase Agreement

The Share Purchase Agreement has no items of an ongoing nature which require monitoring. When the company was privatized in October 1994, the Province was liable for a portion of severance pay and other post-retirement benefits for employees as they retire. As at 31 March 1994, the Province's portion of severance pay was estimated to be $1.7 million. In addition, the Province was also required to make payments totalling $6.5 million relating to the unfunded pension liability of the former NLCS employees. The shares were sold for $9 million.

Our review also indicated that, although the Share Purchase Agreement entitles Government to have a representative on the Board of Directors of NIS during the term of the Agreement, Government has not had a representative appointed to the Board since the fall of 1996.

2. Industrial Benefits Agreement

(a) Monitoring Process

When Government sold NLCS to NewTel and its consortium partners in 1994, there were a number of requirements in the Industrial Benefits Agreement which entitled Government to receive certain benefits. Government, therefore, had a responsibility to establish a process to determine whether it received all of the negotiated benefits. Our review indicated the following:

- An Industrial Benefits Agreement Committee was established to monitor compliance with the terms of the Agreement through meetings of the Committee and various correspondence between its members. This is a three member Committee comprised of representatives from NIS, Treasury Board Secretariat and the Department of Industry, Trade and Technology. This committee is chaired by the Department of Industry, Trade and Technology.
- An official of the Information Technology Management Division of the Treasury Board Secretariat monitors Government work, which is to be subcontracted to the local IT industry under the Industrial Benefits Agreement, by participating in the evaluation of proposals received from local IT companies for this work.

The Industrial Benefits Agreement requires that NIS submit to Government an Annual Report on the progress being made with respect to the commitments of each party under the Agreement. The Agreement outlines the required contents of this Report. This report is intended to provide Government with the information that it requires in order to be able to determine whether it is receiving the benefits it negotiated in 1994. At the time of our review, Government had received three reports. In order for Government to conclude on the status of expected benefits, information provided by NIS should be verified. However, Government has not verified the Annual Reports provided by NIS and, therefore, has not determined whether it is receiving the benefits negotiated in 1994.

(b) New Business Commitments

One of the requirements outlined in the Industrial Benefits Agreement is that NewTel and its consortium partners, Andersen and Sygma, bring new IT business into the Province. Our review disclosed the following with respect to business commitments:

- Although NIS has reported that Andersen has met its commitment to bring $3.7 million of new business into the Province by 31 March 1997, Government has not yet verified this information.

- Andersen has not provided any of its $3 million commitment to establish a Research and Development Centre within NIS by 13 October 1997, including the creation of 27 person years of employment in the first three years of the Industrial Benefits Agreement. The Agreement provides for a cash payment to the Province of 15% of any portion of the $3 million investment not made. Government is currently reviewing its options to resolve this issue.

- Sygma has only achieved approximately $1 million of its required $2.4 million commitment to bring new business into the Province by 31 March 1997. The Agreement provides for a cash payment to the Province of 15% of any portion of the $2.4 million in new business not achieved. Government is currently reviewing its options to resolve this issue.

- Although NIS has reported that NewTel has met its commitment to bring $5.0 million of new business into the Province by 31 March 1997, Government has not yet verified this information.

- As required by the Agreement, NewTel Communications Limited has transferred its IT Division to NIS and now uses NIS for all of its IT needs.

(c) Job Creation

The Industrial Benefits Agreement requires that by 31 October 1997, NIS will have created 20 new jobs. Although the Industrial Benefits Agreement report indicates that NIS has exceeded its job creation commitments to date under the Agreement, Government has not yet verified this information. In addition, the Agreement required Andersen to create 27 person years of employment relating to a Research and Development Centre. As previously indicated, Andersen has not provided its $3.0 million commitment for a Research and Development Centre and as a result, the 27 person years of employment has not materialized.

(d) Subcontracting

The Agreement also requires NIS to subcontract $3.4 million of Government and $2.8 million of non-Government work to the local IT industry by 31 March 1997. Under the terms of the Agreement, there are limits placed upon the amount of business that may be subcontracted to Paragon Information Systems (a subsidiary of NewTel). Although NIS has reported it has met all of its subcontracting commitments, Government has not verified this information.

(e) Supplier Development

The Industrial Benefits Agreement also outlines commitments to be met by both Government and NIS in the area of supplier development. As required by the Agreement, NIS designated one of its employees to be a contact person for local IT businesses. As part of its commitments under the Agreement, NIS has reported the following activities:

- provided semi-annual information sessions for the local IT industry;
- provided information to the local IT industry regarding work available under the Agreement and the process of bidding on this work;
- provided advice and assistance to post-secondary institutions in the Province in the area of IT; and
- provided local IT companies with access to its training courses.

(f) Inventory of Skills

The Industrial Benefits Agreement requires Government to identify and maintain an inventory of the skills of the IT businesses in the Province. Government is fulfilling this commitment through its involvement with Operation ONLINE, a non-profit corporation representing a partnership of industry with the Federal and Provincial Governments. Government is represented on the Board of Directors of Operation ONLINE by the Deputy Minister of the Department of Industry, Trade and Technology. Operation ONLINE has recently completed a Skills and Capabilities Survey which focused on determining the skills of individuals working in the IT industry in the Province. It is intended that these surveys be completed either annually or every second year in order to identify the training requirements of individuals working in the IT industry in this Province. The identification of training requirements is a requirement of Government under the Agreement.

(g) Annual Report Contents

The Industrial Benefits Agreement requires that NIS submit an Annual Report on the progress being made with respect to the commitments of each party under the Agreement. The Agreement outlines the required contents of this Report. Our review disclosed the Annual Report contained the information required under the Agreement with the exception of the following:

- The addresses, and in certain cases the names, of the employees completing Industrial Benefits Agreement subcontracts are not supplied in the Report. Therefore, it is not possible to determine through reading the Report if the work being subcontracted is being completed by local IT businesses as required by the Agreement. To be considered a local business for Agreement purposes the employees completing the subcontracted work must be residents of the Province.

- The Report does not indicate whether Andersen and Sygma are using NIS as their exclusive representative in the Province and preferred representative in Atlantic Canada, or whether there is no business of this nature available. Therefore, it is not possible to determine if Andersen or Sygma are meeting their commitments in this area.

Recommendations

Government should verify the information in the Industrial Benefits Agreement Annual Reports prepared by NIS.

Government, NewTel and its Consortium partners should continue efforts to resolve all areas of non-compliance with the Agreement.

3. Service Level Agreement

(a) Monitoring Process

As with the Industrial Benefits Agreement, Government has a responsibility to determine whether NIS has complied with the terms of the Service Level Agreement. In order to determine compliance with the Service Level Agreement, a Service Level Agreement Executive Committee and a Service Level Agreement Management Committee have been established to monitor the Agreement. Both of the Committees have representatives from the Province and from NIS. All of the reporting requirements of the Agreement are being adhered to either in the form of the monthly performance reports, or through discussion and presentation of information at the monthly Management Committee meetings.

(b) Service Level Commitments

Government has agreed to contract with NIS for services in order to provide NIS with a minimum annual revenue of $17.5 million (less those charges paid by Memorial University of Newfoundland (MUN) which shall not be less than $2.0 million annually) to 31 March 2002. The Service Level Agreement is the agreement between NIS and Government which outlines the terms and conditions under which these services are to be provided. The Agreement indicates that

Government shall include Government departments and related agencies.

During the 1995-96 fiscal year NIS received the required $17.5 million in revenue from Government. However, we were informed by Treasury Board Secretariat that during 1996-97, Government and MUN purchased services from NIS of $16.9 million, resulting in a shortfall of $600,000. Under the Agreement, failure by Government to provide the $17.5 million in revenue to NIS in 1996-97 allows NIS to reduce its subcontracting requirements of $2.8 million in 1996-97 by the amount of the shortfall in the revenue commitment. Also, NIS's commitment to maintain existing employment levels and establish new jobs as outlined in the Industrial Benefits Agreement shall cease. We were informed that NIS has not used the remedies which are available to it under the Service Level Agreement.

As required in the Service Level Agreement, an independent evaluation of some of the services provided in the Agreement was completed by a consultant in December 1995. The scope of the study was confined to the Mainframe Computing portion of the Agreement for the period from August 1994 to May 1995. The intention of Government and NIS is for the services provided under the Agreement to be price competitive for the quantities and types provided. The consultant reported that the service provided by NIS did meet the requirements of the Agreement.

As required under the Service Level Agreement, annual disaster recovery tests were performed by NIS and Government officials during 1995 and 1996. The disaster recovery tests were considered by both parties to be successful.

Although the Service Level Agreement provides Government with the right to perform a security audit, it has not completed a security audit since the Agreement was signed. During the privatization of NLCS, we informed Government of a need to have a service auditor's report on the data centre and, in our last Annual Report, we expressed concern that this audit had not yet been undertaken.

We have been informed that Treasury Board Secretariat has funding approved and is currently in the process of setting the terms of reference for a security audit to be completed during 1997-98.

The Service Level Agreement outlines an annual planning process which is intended to allow Government to budget for its IT expenditures and to allow NIS to plan and schedule the resources necessary to provide the services. The process outlined in the Agreement has been followed and a plan is in place for the 1997-98 fiscal year.

NIS, in consultation with Government, has developed an *Operating Procedures Manual* as required by the Agreement. This Manual is updated at least annually and is also updated when approved changes have been made to the systems described in the Manual.

4. Pension Agreement

The Pension Agreement required payment of $11.3 million on behalf of former employees with respect to pension benefits earned under the Public Service Pension Plan. Of the $11.3 million, $4.8 million was available in the Province of Newfoundland Pooled Pension Fund and the remaining $6.5 million was paid by Government to cover the unfunded pension liability of the employees.

The Pension Agreement does not have any ongoing commitments that require regular monitoring other than the annual payments to the Province of Newfoundland Pooled Pension Fund (the Fund). Our review determined that the amounts disbursed from the Fund as a result of the transfer of employees from the Province's pension plans to the Newfoundland Telephone Company's Pension Plan (the NTC Pension Plan) were in accordance with the Pension Agreement and applicable legislation. There were a total of 204 individuals who were entitled to select between the options offered in the Pension Agreement. Figure 3 indicates the number of employees selecting each of the available options outlined in the Pension Agreement.

Figure 3

Pension Agreement
Selection of Pension Options by Employees

Option Available	Number of Employees
Remain in Province's Pension Plan	15
Join NTC Pension Plan: Deferred Pension	1
Join NTC Pension Plan: RRSP Transfer - based on Contributions plus interest	79
Join NTC Pension Plan: RRSP Transfer - based on Actuarial Present Value	98
Join NTC Pension Plan: RRSP Transfer - based on Actuarial Reserve Calculation	11
Total	204

Sources: Department of Finance - Pensions Division
Province's Consulting Actuary

5. Software Trust Agreement

NIS will hold software, included in a schedule to the agreement, in trust for Government. The agreement protects Government's interest in the software because any rights and benefits arising from the ownership of the software will be held by NIS for Government.

During our review of the privatization process in 1994, we indicated that periodic checks are needed to ensure that NIS is maintaining software in accordance with the Agreement. Our current review indicated that no such checks are performed.

Recommendation

Government should perform periodic checks to ensure that NIS is maintaining software in accordance with the Software Trust Agreement.

6. Building Lease Agreement

The Building Lease Agreement outlines the terms and conditions under which NIS would lease the former NLCS building with 44,943 square feet from Government. This building had an original cost of $4.5 million. It also outlined the process under which the extension of 17,198 square feet to the former NLCS building would be completed. This extension cost approximately $2.1 million.

The rent due to Government, of $9.50 per square foot totalling approximately $630,000 annually, including GST, is being received in accordance with Clause 3 of the Building Lease Agreement. NIS is responsible for payment of maintenance costs.

The building extension was tendered and completed in accordance with the *Public Tender Act*. The *Guidelines for the Hiring of External Consultants* were complied with in the award of the contract for engineering consulting services for the building extension.

Service Levels and Price

The stated intent of the Service Level Agreement is that the initial rates charged would allow Government to purchase in the fiscal year ended 31 March 1996 the equivalent quantity and quality of services provided in the fiscal year ended 31 March 1994 for approximately the same total cost on an annualized basis.

1. Price

Schedule F of the Service Level Agreement outlines the rates being charged to Government for IT services provided by NIS. We reviewed information on the quantity of each service element consumed and the cost of these elements individually and in total. A service element would be a type of service (e.g. an hour of an Analyst's time). For the year ended 31 March 1994, Government purchased approximately $18.5 million in IT services from what was then NLCS.

Under the terms of the Agreement, the rates for professional (i.e. consulting) services have increased compared to what they were prior to privatization and the rates being charged for mainframe processing services have decreased by an equal amount. In addition, effective 1 April 1997, there was a further increase in the rates charged for professional services and a decrease in the rates charged for data storage. This rate increase was in accordance with the provisions of the Service Level Agreement. Excluding the allowable price increase in April 1997, if the same quantity and mix of service elements being consumed by Government at the time of privatization were purchased today, Government would pay approximately the same total cost on an annualized basis. However, if the mix of service elements varies from the mix in 1994, the price will also vary.

Departmental IT administrators we surveyed indicated, however, that NIS is not offering quantity discounts on any of the service elements. The absence of discounts for long-term contracts involving professional services, which were available prior to privatization, was noted as a concern.

2. Service

Under the Service Level Agreement, NIS is required to maintain service levels comparable to those provided by NLCS at the time of privatization. Since privatization, NIS has installed a new processor which has expanded the Province's processing capacity. Monthly reports provided by NIS indicate it is meeting or exceeding the performance targets established in the Agreement in the areas of application availability and online response times. In addition, as required in the Agreement, an independent evaluation of the Mainframe Computing portion of the Agreement for the period from August 1994 to May 1995 was completed by a consultant in December 1995. The consultant reported that the service provided by NIS did meet the requirements of the Agreement. Government has not verified the service levels reported by NIS since the period covered by the consultant's report. However, Treasury Board Secretariat officials indicated that they have not received any complaints from Government IT administrators regarding service levels provided by NIS.

Discussions with departmental IT administrators indicated that occasionally there are problems being experienced with the service from NIS. These problems include failure of NIS to be more marketing oriented and delays in receiving professional services. However, the administrators also indicated that these problems were being experienced prior to privatization.

Stimulation of the IT Industry

One of Government's objectives in the privatization of NLCS was to stimulate growth in innovative technologies and information industries in the Province. To assess whether this objective is being met, it is necessary to have a process in place to monitor the extent of stimulation in the IT sector in the Province.

Government is monitoring the extent of stimulation in the IT sector through its involvement with Operation ONLINE. At the present time, Operation ONLINE has identified approximately 40 performance indicators to measure growth in the IT industry in the Province. Such indicators include the number of people employed in the IT industry, investment in the IT sector, and expenditures on research and development in the IT sector. They have also identified possible sources of information regarding these performance indicators and some problems which may be encountered in obtaining the information. Later this year, Operation ONLINE intends to issue a tender to hire a consultant to gather this information for them and to assemble a report which will indicate the growth in the IT industry in the Province since 1994. This survey will then be updated on an annual basis.

Government also monitors the extent of stimulation in the IT sector through its administration of the Industrial Benefits Agreement.

Recommendation

Government should continue efforts to gather information on performance indicators to measure growth in the IT industry in the Province.

Treasury Board Secretariat's Response

Compliance with and Monitoring of Agreements

Share Purchase Agreement

Government's representation on the Board of Directors of NIS was considered to be appropriate during the transition period. However, this has since been viewed as unnecessary in the interest of developing proper customer-supplier business relationships.

Service Level Agreement

A proposal call has been issued by the Treasury Board Secretariat to have a security audit conducted for the 12-month period ending November 1997. The estimated completion date of the security audit report is March 1998.

Software Trust Agreement

The Secretariat has reviewed this matter with NIS and the respective client departments. It has been determined that three (3) of the nine (9) software licences listed are no longer used in Government. The other six (6) will remain under the Software Trust Agreement until such time as they are no longer required by the respective client departments.

Service Levels and Price

Price

While NLCS did provide discounts prior to privatization, Schedule F-Pricing of the SLA was developed with the specific recognition that discounts would not be provided after privatization. However, the Secretariat is of the opinion that Government would not expect NIS to offer quantity discounts, because, as stated in your report, "...if the same quantity and mix of service elements being consumed by Government at the time of privatization were purchased today, Government would pay approximately the same total cost on an annualized basis.". The Secretariat therefore considers that from a Government-wide perspective, the concern expressed by client departments carries no consequential value in terms of IT expenditures at NIS.

Service

Government receives service level reports from NIS on a monthly basis. In addition, the ITM Division of the Treasury Board Secretariat is informed, by the client departments, if they experience downtime or poor response time. To date, discrepancies have not been reported between the service levels reported by the supplier, and, the service levels experienced by client departments.

It should also be noted that although the first review of Mainframe Computing by the independent consultant included an assessment of service levels relative to the SLA, the consultant has subsequently advised that this service can no longer be part of their evaluation. They have advised that they cannot verify actual service levels without the possible threat of manipulation of data by the supplier. As such, they recommended that Government consider whether service level reports provided by the supplier, reflect the level of service experienced by client departments. Further, that if a significant discrepancy is detected between the two, a thorough review of the matter should be conducted. This is the practice that has been adopted by the Secretariat since the consultant adopted the above policy.

Department's Response

The Department of Industry, Trade and Technology is responsible for the monitoring of the Industrial Benefits Agreement, and therefore our comments will be limited to that component of your report.

This Department has been working with NIS and its partners for some time in an effort to resolve all areas of non-compliance with the Agreement. We recognize that significant effort was expended in the negotiation of this Agreement with the aim of growing the local IT sector. We do not feel that seeking remedies in the form of liquidated damages will accomplish this goal and would only like to go this route when we have exhausted all other options. A Cabinet paper outlining our recommendations on these non-compliance areas is in the final stage of preparation. We would like to make note of one particular area, however. You note that Andersen is committed to creating 27 person years of employment through the R & D Centre. The Agreement reads that Andersen "...will use Best Efforts to work with NLCS to create 27 person years of employment at NLCS..."

One of the recommendations in your report is for Government to verify the information in the Industrial Benefits Agreement Annual Reports prepared by NIS. While this Department has not had an independent audit undertaken as yet, we are monitoring the results on an ongoing basis, through the activities of the Industrial Benefits Agreement Committee, regular meetings with the private sector and in particular the Newfoundland and Labrador Alliance of Technical Industries, and through numerous meetings at all levels, with NIS. In addition, the Department has recently engaged the Internal Audit Division of Treasury Board to undertake such an audit. We anticipate this audit will undertaken soon, and thereafter on an annual basis.

Another recommendation made by your office involves Government's efforts to monitor the growth of the local IT sector. Through its creation, ONLINE has taken on the responsibility of playing a role in developing the Province's IT sector. Given the focus of this organization, Government will continue to work with ONLINE on this matter.

Another area of concern outlined in your report is that of residency, and the fact that it is not easily determined by reading the Annual Reports if employees of sub-contractors are resident in Newfoundland and Labrador. The Industrial Benefits Agreement Committee undertook a significant effort early in the life of the Industrial Benefits Agreement to insure residency requirements are met. While this information is not detailed in the Annual Report, it is a mandatory requirement of all Request for Proposals that contractors provide information necessary to determine residency. The review conducted by Internal Audit will examine this issue for non-government work.

We acknowledge that the Annual Reports do not report on the preferred contractor relationships between NIS and Andersen, and NIS and Bell Sygma. We intend to rectify this omission in the future and request a separate report from NIS for the current period.

3.5 Newfoundland and Labrador Teachers' Association Group Insurance Plan

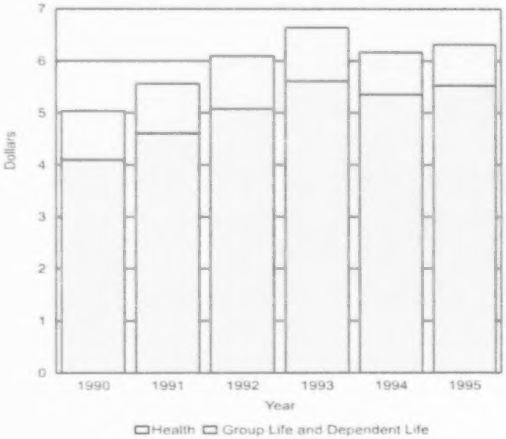
Introduction

The Newfoundland and Labrador Teachers' Association (NLTA) offers a Group Insurance Plan for all its members and those who are retired. There are about 9,500 active teachers and retirees participating in this Plan. The NLTA has appointed a Board of Trustees to administer the Plan. The Board, in turn, has entered into an agreement with an independent third party administrator to act as broker, administrator and consultant for the Group Insurance Plan.

In accordance with Article 26 of the *NLTA Provincial Collective Agreement*, the Province funds the premiums relating to group health, group life, dependent life, and mandatory accidental death and dismemberment insurance on a 50/50 cost-shared basis with teachers and retirees. The annual payments for these premiums as at 31 August 1995 was $6.3 million with Government's share being approximately $3.1 million. The Collective Agreement dated 27 June 1994 defines the premium approval process and outlines the process to be followed in the event of a dispute between Government and the NLTA. Figure 1 outlines the contributions made by Government and teachers to the Group Insurance Plan for the past six years.

Figure 1

NLTA Group Insurance Plan
Net Premiums
Years ended 31 August
($ Millions)



Note 1: Net premiums are defined by NLTA as "*...paid premiums less deficit recovery or funds transferred to an unrestricted deposit account.*"

Scope and Objective

We completed our review of the Newfoundland and Labrador Teachers' Association Group Insurance Plan in February 1997. Our review consisted of interviews with government personnel and the review of relevant information such as policies, procedures, minutes, contracts, and financial statements and reports.

The objective of our review was to examine the management controls Government has in place over contributions to the Newfoundland and Labrador Teachers' Association Group Insurance Plan, to ensure that payments made were used for the purpose intended.

Conclusions

Insurance premiums totalling approximately $3.1 million paid annually by the Province to the NLTA for group life, dependent life, accidental death and dismemberment, and supplementary health insurance have, in certain instances, exceeded Government's 50% share of the program cost. Government has estimated its share of the surplus to be approximately $3.0 million as at 31 March 1997. However, Government does not have an agreement in place with the NLTA as to the ownership and disposition of refunds, surpluses and deficits.

Article 26.02 of the Collective Agreement provides Government with an option to request arbitration if there is a disagreement on the reasonableness of the premium rates. Government, however, has not attempted to recover the estimated $3.0 million surplus through this process.

Although Government has received audited financial statements from the NLTA Insurance Fund, the financial statements do not segregate the financial position and results of operation of the provincially funded plans from other activities of the NLTA Insurance Fund. Government does receive annual financial information on the programs which it cost shares; however, it is not audited.

Government contributes its portion of the insurance premium to an independent third party administrator. This administrator deducts an administration fee and submits a net premium amount to the Insurer. Government, however, does not receive any reports to show what is included in the administration fee.

Findings and Recommendation

In 1974, Government entered into an arrangement with the NLTA whereby it agreed to pay 50% of the premiums relating to certain teachers' insurance benefits. Article 26 of the Collective Agreement sets out the requirements of both parties as follows:

Clause	Details
26.01	Requires Government to contribute 50% of certain insurance premiums.
26.02	Provides for the appointment of an arbitration board if Government does not agree with the premium rates.
26.03	Outlines the role of the Insurance Committee, on which Government is represented.
26.04	Indicates that Government will be provided with financial statements and information on the premiums which it cost-shares to allow it to assess the reasonableness of existing and/or proposed premium rates.

Source: NLTA Provincial Collective Agreement

The most recently available financial statements of the NLTA Insurance Fund obtained by Government were for the year ended 31 August 1996. These financial statements indicated that the Plan had a surplus of approximately $5.3 million at that time. Since both Government and teachers fund the Plan, the $5.3 million surplus arose from those contributions. Officials at Treasury Board Secretariat indicated that, in their opinion, approximately $3.0 million of the surplus is attributable to excess Government contributions and as such should be refunded to Government.

Our review of the Government's management controls over its contributions to the NLTA Group Insurance Plan indicated the following:

- The ownership and disposition of refunds, surpluses and deficits have not been resolved to date. As a result, there is no agreement between the Province and NLTA regarding the ownership and disposition of refunds, surpluses and deficits for the Group Insurance Plan. Surpluses and deficits could have an impact on future premium rates.

- The Collective Agreement provides for an arbitration process when Government disagrees with the premium rates. However, Government has never exercised this option in order to recover the estimated $3.0 million surplus attributable to Government's excess contributions.

- Although Government has received the audited financial statements of the NLTA Insurance Fund, the financial statements do not segregate the financial position and results of operation of the provincially funded plans from the other activities of the NLTA Insurance Fund.

  Government also receives financial information from the insurer on the cost-shared programs; however, it is unaudited and is net of certain administration fees. The administrator's fees and commissions are based on a percentage of premiums collected, not on a fixed dollar amount. As premiums escalate, the administration fees and commissions will also increase.

  The Province does not receive any reports from the third party administrator acting as broker, administrator and consultant. It does not receive any reports evaluating the administrator's administration of the Plan. The Province does not receive any information on large or unusual claims, results of any internal audits or quality control reviews. The Province does not receive regular reports on operational reviews from the insurer, the administrator or the NLTA.

- The Province does not have a copy of the underwriting agreement with the insurer and only unsigned copies of the Deed of Trust and the agreement with the administrator. The Deed of Trust between the NLTA and the Trustees requires a report on the disposition of surpluses to be sent regularly to the NLTA but there is no requirement that this report be provided to Government.

As a result, the present management controls do not provide for adequate accountability or effective control over the annual expenditure of approximately $3.1 million of public money.

Recommendation

Government should exercise its rights under the Collective Agreement to ensure that payments for insurance premiums are reasonable and made for the purposes appropriated by the Legislature.

Treasury Board Secretariat's Response

We agree with the Auditor General that Government does not receive sufficient information from the NLTA regarding group insurance plan expenditures. It is our view that Government should be represented on the Board of Trustees, as an equal partner with the NLTA. It is also our view that approximately $3 Million should be credited to Government by the NLTA, representing Government's share of insurance plan surpluses.

Financial agreements, underwriting provisions and administration costs are equally important to paid claims in determining the premiums required for group benefits. The fundamental problem is that Government is not involved in the decision-making process on matters that affect Government contributions. To remedy this situation, changes are required in the collective agreement.

The Secretariat has had numerous discussions and correspondence with the NLTA on these matters. While the sharing of information has improved somewhat the situation is far from satisfactory.

We would prefer to resolve our differences with the NLTA on this issue without reference to arbitration. The matter has been tabled as part of our proposal package during collective bargaining. If we are successful in obtaining appropriate changes to the contract, this should address the current situation *satisfactorily. In the event that we cannot conclude a negotiated settlement with the NLTA, we may have no choice but to refer the matter to arbitration, or consider other options.*

3.6 Compensation Practices

Minute of Council 94-0520, dated 2 June 1996, directed that Treasury Board "*...advise all boards, agencies and commissions, etc., that compliance in all respects with compensation standards which have been established for Government departments is mandatory.*" It is clear that Government wanted to ensure that no public sector entity was providing compensation over and above that which had been established for Government departments.

Treasury Board, however, did not advise the boards, agencies and commissions, etc., that compliance with Government's compensation standards is mandatory. The result of Treasury Board not informing the entities was clearly evident during our review of Crown-controlled corporations and agencies of the Crown since the issuance of Minute of Council 94-0520. Our reviews have indicated numerous incidents where the entities provided compensation to employees that was not consistent with the compensation standards established for government departments. In all instances, the entities indicated that they were never informed of the requirement to comply with Government's compensation standards.

The following are examples of compensation practices that are not consistent with those established for government departments and which have been included in our reports:

1997 Annual Report

Part 3.14	Page 125	School Board Expense Review
Part 3.15	Page 143	Newfoundland Farm Products Corporation
Part 3.21	Page 187	Health Care Corporation of St. John's
Part 3.22	Page 191	Newfoundland Cancer Treatment and Research Foundation

1996 Annual Report

Part 3.7	Page 81	Western Memorial Hospital Corporation
Part 3.8	Page 104	Newfoundland Medical Care Commission
Part 3.13	Page 171	Burin Peninsula Integrated School Board

1995 Annual Report

Part 3.1	Page 14	Marble Mountain Development Corporation
Part 3.3	Page 33	The John Cabot (1997) 500th Anniversary Corporation

Recommendation

Treasury Board should comply with Minute of Council 94-0520.

Treasury Board Secretariat's Response

MC 94-0520 must be implemented within the context of legislation which gives some agencies a degree of discretion in establishing compensation policies. It must also be recognized that certain collective agreements, and other explicit or implied contracts of employment, do include compensation policies which may be somewhat different from those used in Government departments. Given these legislative and contractual limitations, a written directive to all boards, agencies and commissions regarding mandatory compliance in all respects with prescribed compensation standards was not deemed to be practical. Nevertheless, action was taken, where possible to comply with the intent of MC 94-0520.

Compensation standards for most public employees are established through the collective bargaining process. For those agencies which fall within the *jurisdiction of the* Public Service Collective Bargaining Act *and related legislation, Treasury Board controls negotiations. If these contracts contain different compensation policies, they were negotiated with Treasury Board's knowledge and concurrence. There are collective agreements such as Memorial University, Newfoundland and Labrador Hydro, School Board Support Staff, etc., which are not covered by the* Public Service Collective Bargaining Act. *These agencies have legislative authority to bargain without representatives from Treasury Board on the negotiating team.*

The Public Service Reform initiative includes the establishment of a Task Force on Boards and Agencies which will address matters relating to authority and accountability. The issue of authority and accountability as it relates to compliance with compensation standards can be re-examined in that forum, which could result in changes to MC 94-0520, or other recommendations.

3.7 Backup and Disaster Recovery Procedures for Government Microcomputer Systems

Introduction

The use of microcomputer hardware and software in Government departments has increased in past years. Most departments of Government have installed local area networks (LAN) that have become critical to day-to-day operations. Employees use the LAN daily for purposes such as word processing, financial analysis and communication by electronic mail. Many departments also have purchased or developed microcomputer systems which reside on departmental LANs, or stand alone machines, that are used to deliver government programs. The loss or unavailability of microcomputer systems could result in either a cost to reconstruct programs and data, delays in delivery of programs and/or loss of prestige, and embarrassment to Government.

Microcomputer hardware and software systems can fail. Threats to continuity of system operations include, for example, unforeseen mechanical or electronic failure, introduction of computer viruses and actions of employees. Disruption to operations and Government programs can be minimized when systems fail, by ensuring adequate backup copies of programs and data are maintained and a disaster recovery plan exists to enable staff to perform a controlled and orderly recovery of the system to normal operations.

Treasury Board Secretariat is responsible for preparation and maintenance of Government's information technology (IT) policies. These are documented in the Government of Newfoundland and Labrador Management Manual which was approved by Government in 1985. The Manual states that *"The operation of information systems has become a critical factor in the operation of government services. It is essential to ensure continuous services, or the prompt resumption of services in the event of system failure."* Furthermore, the Manual assigns responsibility to departments for ensuring that backup and recovery procedures are in place.

Scope and Objective

We completed our review of backup and recovery procedures during October 1997. Our examination was conducted relative to 12 departments which were controlled by 5 centralized information technology groups. The objective of our review was to determine whether the departments we examined complied with Government's backup and recovery policies and procedures.

Conclusions

Government departments are not complying with Government's information technology policies and procedures. Specifically:

- Departments are not carrying out risk assessments for their computer programs and data to identify critical systems and to determine the extent of backup and recovery procedures necessary to protect continuity of Government's computer system dependent operations.
- Most departments have not developed adequate backup and recovery procedures to be used to recover from any destruction or corruption of programs and data.
- Many departments have not developed disaster recovery plans to guide them to a planned and orderly return to normal operations in a timely and orderly manner in the event they lose their current programs and data.

Findings and Recommendations

1. Risk Assessment

Government's IT policies were developed by the Treasury Board Secretariat to provide guidance and assistance to departments in the use of electronic data processing within their operations.

Government's IT policies state that departments are responsible for ensuring appropriate security, backup and documentation for all information technology activities. The policies further require that users should be fully aware of the need to make backup copies of programs and important files and store them in a location away from the microcomputer site. Proper backup procedures will ensure that the programs and files lost due to destruction of the originals are easily replaced.

In order to determine the significance of computer programs and data and the possibility of loss or corruption, departments have to complete a formal risk assessment. To this end, the policies require that departments complete a risk assessment for all microcomputer-based applications so that the impact of the loss or destruction of data to the department is determined and the appropriate backup and recovery procedures are developed and implemented.

Our review indicated that none of the 12 departments completed a formal risk assessment as required by Government's IT policies.

2. Backup and Recovery Procedures

Government's IT policies require that departments have adequate backup and recovery procedures to ensure that computer programs and data lost due to destruction are easily replaced.

Preparation and off-site storage of useable backup copies of microcomputer programs and data will ensure that disruption of operations is minimized in the event microcomputer hardware fails or programs and data are rendered unusable. Although microcomputer equipment can generally be considered to be very reliable, failures do happen. Likewise, computer programs and data can be either destroyed or corrupted in a variety of manners such as attack by computer virus, degradation of hard drives and diskettes, and actions of employees. It is crucial that useable backup copies of programs and data are available for restoration when these circumstances occur.

Adequate backup procedures for programs and data should include, for example, the following:

- Formal documented procedures which are approved and communicated to staff.
- Off-site storage of backup tapes with the number of off-site copies adhering to the "child-parent-grandparent" concept. This means three successive generations of backup tapes are maintained to minimize the risk of a complete loss of programs and data. For example, if the latest tape is unusable, the next previous tape may be used to complete the restoration.
- Periodic testing of backup copies of programs and data files to ensure they are useable.

Our review of backup and recovery procedures disclosed the following:

- Although each department we examined was backing up programs and data files, the backup procedures were not adequate. Ten of 12 departments did not have formally documented backup procedures. The preparation of formally documented backup procedures, approved by system owners are necessary. They provide assurance, once approved by owners of the programs and data, that the backup procedures followed will provide them with the greatest degree of protection possible from loss or destruction of programs and data. Also, they serve to assign accountability for ensuring the procedures are carried out and ensure that the backup procedure will be consistently completed in the event of staff turnover or if staff, who normally complete the backup, are not available.

- None of the 12 departments we examined had adequate off-site storage of backup tapes. As a minimum, we would expect departments to follow the "child-parent-grandparent" concept. Four departments did not store backup data off-site at all. Eight departments that did store backup data off-site did so with insufficient frequency because only monthly (rather than weekly or daily) tapes were stored off-site or only one generation of the backup was stored off-site (rather than three consecutive generations).

  The off-site storage of backup tapes is critical when a disaster occurs in the server location. Unless the department maintains backup tapes off-site, it could lose all of its data in the event the server and on-site backup tapes are destroyed. This could involve serious disruption to operations and data lost may be irretrievable. Furthermore, storing data off-site without sufficient frequency could also entail the loss of data and work. For example, if there are no weekly backup tapes off-site and a disaster occurs just prior to completion of a month-end backup, restoration from the previous month's backup could mean the loss of up to four weeks of data and work.

- Six of the 12 departments did not test the backup tapes routinely to ensure the backup copies being made were useable for purposes of restoring computer systems. This may be significant in the case when a department loses its current programs and data and discovers that the backup tape is unusable.

3. Disaster Recovery Plan

A disaster recovery plan is necessary to facilitate a planned and orderly return to normal operations after a disaster. It is inappropriate to assume that a disaster will not befall the department or that, in such an event, departmental staff would know how to proceed to return to normal operations.

Six of the 12 departments visited had not prepared a disaster recovery plan. The Information Technology Division in one department, which was also responsible for this area in five other departments reviewed, had prepared a plan to deal with a number of possible problems.

The disaster plan should be prepared to enable a recovery from any eventuality and it should be documented, approved and communicated. The disaster recovery plan should include and consider vital information such as:

- a list of personnel to be notified including their names, home address, home and work phone numbers;
- assigned responsibilities for each contingency and step in the disaster recovery plan;
- a detailed statement of alternative processing and operating procedures in the event the department's normal operating location is affected by the disaster and unavailable for continued operations; and
- a priority list of organizational functions and the order in which applications should be restored.

The disaster recovery plan should be reviewed at least annually to keep it current and tested by simulating a disaster regularly. In addition it should include all automated and manual processes.

Recommendations

Departments should conduct risk assessments for all microcomputer-based applications and revise their backup procedures commensurate with the risk identified.

Departments should revise their backup procedures to enable them to recover from any destruction or corruption of programs and data.

Departments should prepare a disaster recovery plan to ensure that they are able to return to normal operations in a timely and orderly manner in the event they lose their current programs and data.

Department's Response

The departments identified as not carrying out risk assessments or not developing disaster recovery plans, generally indicated that they are planning to address the concerns raised.

With regard to the issue of backup and recovery procedures, there were a variety of views expressed as to the adequacy of current procedures. Most departments felt that their current procedures were generally adequate; however, many indicated that some changes would be made to strengthen their backup and recovery procedures.

3.8 Accounts and Loans Receivable in Government

Introduction

Our previous reports to the House of Assembly have indicated that Government's systems for recording, reporting and controlling accounts receivable did not always provide timely and accurate information to users. As a result, Government did not know how much money was owed to it at any given point in time. The general exception was the amount owed as of 31 March of each year which was determined subsequent to year end in order to prepare the financial statements of the Province. Government anticipates that this problem will be addressed with the implementation of its new accounting system, which is presently in the development stage.

Our review of Government departments also indicated that a significant portion of their accounts receivable were in arrears and that their cash management program, which includes the collection of these accounts, was not adequate.

Figure 1 provides information on amounts owed to Government for each of the five years to 31 March 1997 along with the amount that Government considers to be uncollectible and amounts written off. These amounts owed include accounts and taxes receivable, as well as loans, advances and mortgages receivable.

Scope and Objective

We reviewed the amounts owing to Government as at 31 March 1997 to determine whether they are collected on a timely basis.

Conclusion

In addition to not collecting amounts owed to it on a timely basis, Government has written off significant amounts owed to it. The systems in place to record, monitor, control and collect amounts owed to Government are not adequate.

Figure 1

Consolidated Revenue Fund
Accounts, Taxes, Loans, Advances and Mortgages Receivable
Years Ended 31 March
($ 000's)

	1993	1994	1995	1996	1997	Total
Total Receivables	$531,265	$544,156	$551,764	$537,153	$474,797	
Less: Amounts Considered to be Uncollectible	242,480	255,565	279,065	279,924	215,210	
Net Receivables	$288,785	$288,591	$272,699	$257,229	$259,587	
Accounts Written off	$80,022	$14,242	$5,398	$20,790	$69,877	$190,329

Source: Consolidated Revenue Fund Financial Statements

Findings and Recommendation

Figure 2 provides details on the $474.8 million owed to Government as at 31 March 1997.

Figure 2

Consolidated Revenue Fund
Amounts Owed to Government
31 March 1997
($ 000's)

Type of Receivable	Balance 31 March 1997	Amount outstanding in excess of one year	Amount considered doubtful of collection
Crown Agencies	**(Note 1)** $230,487	$27,770	$115,295
Taxes receivable	140,610	49,063	48,084
Commercial loans	25,465	24,377	17,690
Miscellaneous	31,322	10,548	9,034
Court fines	20,371	12,772	8,526
Social Assistance overpayments	22,689	17,427	15,500
Other	3,853	0	1,081
Total	**$474,797**	**$141,957**	**$215,210**

Note 1 Of the $230.5 million relating to Crown Agencies, $143.3 million relates to Enterprise Newfoundland and Labrador Corporation, the Fisheries Loan Board of Newfoundland and the Farm Development Loan Board. The amount due to these entities for loans made is $51.1 million in arrears. Also, of the $230.5 million, $38.5 million is due from the Newfoundland Industrial Development Corporation on a long-term basis with no specific repayment date.

Our review of the amount owed to Government indicated the following:

- Government's average cost of borrowing in the capital market for the year ended 31 March 1997 was 8.1%. If Government had collected the $142.0 million outstanding for more than one year and the $51.1 million in arrears with the lending entities and used these funds to retire debt or to reduce current borrowing, annualized savings on debt servicing could have exceeded $15.6 million.

During the last five years Government has written off $190.3 million in accounts receivable owed to it as shown in Figure 3.

Figure 3

Consolidated Revenue Fund
Accounts and Loans Receivable Written Off
1993 to 1997
($ 000's)

Entity	Amount
Baie Verte Mines Inc.	$ 47,551
Newfoundland Industrial Development Corporation	22,551
Newfoundland Enviroponics Limited	15,252
Newco Corporations	14,981
Enterprise Newfoundland and Labrador	10,894
Newfoundland Dockyard	8,065
Ocean Harvesters Limited	6,649
Cape Pine Fisheries Ltd.	6,466
Miscellaneous Loans and Mortgages Forgiven which are less than $300,000 individually	5,268
Fisheries Loan Board of Newfoundland	4,421
St. Lawrence Fluorspar Limited	3,919
Fisheries Loans	3,849
Court Fines	3,840
Notre Dame Bay Fisheries	3,762
Social Assistance Overpayments	3,559
Universal Group of Companies	3,504
Department of Health	2,501
Harbour Grace Fishing Company Limited	2,368
Oceana Seafood Processors Limited	2,175

(Figure continued - next page)

Figure 3 (cont'd)

Consolidated Revenue Fund
Accounts and Loans Receivable Written Off
1993 to 1997
($ 000's)

Entity	Amount
St. Clares Mercy Hospital	$ 1,993
Superior Seafoods Limited	1,567
St. John's Metropolitan Area Board	1,475
Governor's Park Limited	1,428
Great Northern Seafoods Limited	1,414
Petty Harbour Fishermen's Producer's Co-operative Society Limited	1,316
Blue Ocean Products Limited	1,314
Other government departments - accounts written off	1,182
Reid's Products Limited	931
Petty Harbour Fisheries Ltd.	926
Belle Isle Seafoods Ltd.	799
White's Fisheries Limited	770
Department of Natural Resources	667
Island Tile and Slate	513
Nordco Limited	478
Sop's Arm Fisheries (1988) Limited	341
Gander Masonic Memorial Complex Inc.	340
Ocean Kist Products (1970) Ltd.	338
Department of Fisheries	335
Trouty Seafoods Limited	315
Department of Works, Services and Transportation	312
Total	$190,329

- In addition to the $190.3 million, during the years 1993 to 1997 Government wrote off $9.1 million in tax forgiveness and $16.5 million in tax remissions.

- As at 31 March 1997, Government anticipated that $215.2 million or 45.3 % of the $474.8 million amount owed to it will likely not be collected.

- There is no government-wide system to record, control and collect total amounts owed to Government. Departmental systems range from manual year-end listings and other manual records, to computerized systems and there is little consistency among these systems. Government is in the process of implementing a new accounting system which should address these concerns.

- Some entities listed in the Province's financial statements as owing amounts to Government are no longer active. These include Hotel Buildings Limited ($26.5 million), and Easteel Industries Limited ($3.7 million). While there is an allowance provided against the amounts owed by these entities, this is not clearly indicated in the financial statements of the Province and as a result, this disclosure may be misleading. When amounts owed are known to be uncollectible, they should be written off and removed from the Province's financial statements.

Other

Our review of the Health Care Corporation of St. John's and the Western Memorial Hospital Corporation in Corner Brook also indicated that their accounts receivable are not being collected on a timely basis.

With respect to the Health Care Corporation of St. John's, patient receivables as at 31 March 1997 were $7.9 million. Of this $7.9 million, $5.6 million or 70% of total patient receivables were over 30 days old. Approximately $1.6 million of the $7.9 million was estimated to be uncollectible. The Corporation has retained the services of a collection agency to assist in the collection of its accounts receivable.

With respect to the Western Memorial Hospital Corporation, patient receivables as at 31 March 1995 (financial statements for 1996 and 1997 are not available as of November 1997) were $1.2 million. Of this $1.2 million, $1.0 million was for the Western Memorial Regional Hospital and $0.6 million was over 30 days old. Approximately $430,000 of the $1.2 million was estimated to be uncollectible.

Any amounts owed to these Corporations which are determined to be uncollectible, are funded 100% by Government. As a result, funding by Government could be decreased if these accounts were collected on a timely basis.

Recommendation

Accounts receivable should be collected on a timely basis.

Treasury Board Secretariat's Response

The comment that, "If Government had collected the $142.0 million...annualized savings on debt servicing could have exceeded $15.6 million.", implies that Government was in a position to collect all of these amounts, but didn't, and as a result has forgone an opportunity to save $15.6 million in interest. Government was not in a position to collect the majority of these amounts because of the inability of the debtor to pay. Other amounts remain outstanding in spite of significant collection efforts. As you have indicated in Figure 2 the majority of the $142.0 million has already been deemed doubtful for collection.

There are references throughout the report to significant amounts written off by Government. It hasn't been noted that Government has a process in place, in accordance with legislation, which provides for review and approval of all amounts submitted by departments for write off.

Government is actively pursuing several options which we believe have the potential to assist us greatly in the collection of Government's accounts receivable. Also, as you have indicated, our accounts receivable requirements are being assessed as part of the Financial Management Systems Project.

Department of Finance

3.9 Atlantic Lottery Corporation

Background

The Atlantic Lottery Corporation Inc. (ALC) was incorporated in 1976 under the *Canada Business Corporations Act*, and is jointly and equally owned by the four Atlantic provinces. It is a public sector entity that is extensively and directly involved in the management of a variety of lottery and gaming activities on behalf of the Atlantic provinces.

The original enabling inter-provincial agreements signed in 1976 provided the following with respect to the mandate or purpose for the corporation: "*The Atlantic Lottery Corporation, a body corporate incorporated under the Canada Business Corporations Act, is designated as and hereby becomes an agency of Her Majesty in the right of (each of the shareholder provinces) for the purpose of conducting and managing lottery schemes in each of those Provinces or other Provinces.*"

Certain other agreements (e.g. the introduction of video lottery in 1990 and 1991) between ALC and/or the shareholders (individually or collectively), also make reference to the corporation's status as "*an agency of her Majesty in the right of*" the shareholder province(s).

During 1994 and 1995, the Auditors General of Nova Scotia and New Brunswick, under their respective legislative audit mandates, had attempted, unsuccessfully, to gain full and direct access to ALC for audit purposes. However, on 15 December 1995, the Nova Scotia Gaming Corporation, in its capacity as the Nova Scotia shareholder for ALC, requested the Auditor General of Nova Scotia to "*...perform an audit of the operations of the Atlantic Lottery Corporation including issues on economy and efficiency that could impact the Province of Nova Scotia.*" This request was made under the Shareholder's Audit provision, section 20, of ALC's corporate by-laws, which reads as follows:

"*A Shareholder will have the right to have an independent audit or inspection made of the books and records of the Corporation by the Auditor General of the Province that the Shareholder represents, but any such audit or inspection will be made at the expense of the Shareholder who requests it.*"

Subsequent to accepting this assignment, the Auditor General of Nova Scotia invited the Auditors General from the other three Atlantic Provinces to participate in this audit.

There were no restrictions or limits placed on the scope of the assignment which was planned and conducted as a legislative audit. The audit was performed jointly by audit staff from Nova Scotia and New Brunswick, with audit plans and results being reviewed with the Auditors General of Newfoundland and Prince Edward Island. The following is a summary of the results of the audit of the Atlantic Lottery Corporation.

Introduction

ALC's mission as indicated by its corporate strategic plan, approved by the Board of Directors in 1993, is as follows: "*The Atlantic Lottery Corporation will profitably create, develop, market and manage lottery and gaming activities with integrity in partnership with the Shareholder Provinces.*"

Each jurisdiction has lottery and gaming related statutes in place, with supporting regulations, that must be appropriately considered and complied with by ALC. While similar, there are some regulatory or policy directive differences (e.g. video lottery terminals). Historically, ALC has played a role in the monitoring of regulatory compliance for each jurisdiction. Various inter-provincial agreements have been signed with respect to ALC. Further, it has corporate by-laws, last updated and approved by the corporation's Board of Directors and the shareholder provinces in 1994. These lay out the basic framework under which ALC's Board and management must function.

Each shareholder province can appoint two representatives to an eight member Board of Directors, and each shareholder has one of its Board representatives on the corporation's Audit Committee. Decisions are usually determined based upon a majority vote, with one exception being changes to the methodology for allocation of profits to the shareholders, which requires unanimous approval.

Each shareholder province also holds a share in, and has one representative on the Board of Directors of the Inter-Provincial Lottery Corporation. This Board coordinates and manages the national lottery programs through, "regional marketing organizations". ALC is the regional marketing organization for Atlantic Canada, and must adhere to defined policies and standards for national lottery games (e.g. 6/49, Super 7).

ALC shareholders have and continue to invest significant amounts of public funds for the development, maintenance and management of ALC's operations. ALC's revenue and expenses, and its profit distributions are significant to each of the four shareholder provinces. Figure 1 provides summary information extracted from ALC's annual financial statements on the Corporation's results since 1976.

Figure 1

Atlantic Lottery Corporation
Summary of Results
Year ended 31 March
($ 000's)

Year Ended 31 March	Total Sales	Direct Expenses	Gross Profit	Operating Expenses	Operating Profit	Other Income/ (Distributions)	Profit Available for Distribution
1977	$ 11,574	$ 4,716	$ 6,858	$ 1,657	$ 5,201	$ 46	$ 5,247
1978	40,602	22,924	17,678	3,556	14,122	249	14,371
1979	43,617	24,395	19,222	4,022	15,200	522	15,722
1980	41,096	26,003	15,093	4,784	10,309	606	10,915
1981	52,557	30,405	22,152	5,667	16,485	(198)	16,287
1982	66,750	37,993	28,757	7,519	21,238	594	21,832
1983	78,635	44,640	33,995	12,294	21,701	(1,098)	20,603
1984	109,163	62,271	46,892	12,829	34,063	(1,285)	32,778
1985	134,987	78,602	56,385	14,297	42,088	(686)	41,402
1986	152,734	84,788	67,946	18,649	49,297	(3,486)	45,811
1987	197,117	108,444	88,673	23,989	64,684	(4,019)	60,665
1988	211,984	116,881	95,103	25,644	69,459	(4,780)	64,679
1989	230,895	127,366	103,529	28,982	74,547	(2,544)	72,003
1990	227,925	130,344	97,581	28,538	69,043	(2,372)	66,671
1991	268,612	162,305	106,307	29,387	76,920	(3,103)	73,817
1992	393,792	234,852	158,940	35,793	123,147	(9,933)	113,214
1993	530,892	301,481	229,411	40,676	188,735	(14,076)	174,659
1994	565,530	313,969	251,561	42,012	209,549	(12,742)	196,807
1995	655,913	348,091	307,822	51,079	256,743	(16,963)	239,780
1996	717,828	374,204	343,624	51,325	292,299	(16,636)	275,663
Total	$ 4,732,203	$ 2,634,674	$ 2,097,529	$ 442,699	$ 1,654,830	$ (91,904)	$ 1,562,926

Source: ALC's audited financial statements

Figure 2 provides additional details on these results since the fiscal period ended 31 March 1992 (i.e., the first full year of the video lottery program). As indicated in Figure 2, Newfoundland has received $383 million in revenues from ALC since its inception in 1976.

Figure 2

Summary of Results after Video Lottery Program Implementation
Year ended 31 March
($ 000's)

	Total	1996	1995	1994	1993	1992	Sub-total 1976 to 1991
Sales:							
Gross ticket sales	$3,730,643	$436,781	$409,406	$370,037	$346,995	$309,312	$1,858,112
Net video lottery receipts	1,001,560	281,047	246,507	195,493	183,897	84,480	10,136
	4,732,203	717,828	655,913	565,530	530,892	393,792	1,868,248
Direct expenses:							
Prizes on ticket sales	1,864,072	233,035	216,014	193,295	180,665	158,808	882,255
Commissions	662,158	131,708	122,804	112,357	111,724	67,315	116,250
-Regular lottery	243,985	31,916	29,335	26,380	24,686	21,917	109,751
-VLT site-holders	286,124	70,919	64,303	59,773	60,153	27,633	3,343
-VLT owners (coin operators)	132,049	28,873	29,166	26,204	26,885	17,765	3,156
Ticket printing	108,444	9,461	9,272	8,318	9,092	8,729	63,572
	2,634,674	374,204	348,090	313,970	301,481	234,852	1,062,077
Gross Profit	2,097,529	343,624	307,823	251,560	229,411	158,940	806,171
Operating Expenses:	442,699	51,325	51,079	42,012	40,676	35,793	221,814
Operating Profit	1,654,830	292,299	256,744	209,548	188,735	123,147	584,357
Interest and Other Income	23,266	2,852	886	645	989	1,080	16,814
	1,678,096	295,151	257,630	210,193	189,724	124,227	601,171
Less:							
- Government of Canada	52,799	3,565	3,525	3,584	3,444	3,354	35,327
- Goods and Services Tax	52,252	11,970	11,250	9,549	11,319	7,215	949
- Special commissions to non-profit organizations	3,572	220	260	254	302	444	2,092
- NS retailers bonus	6,547	3,733	2,814	-	-	-	-
	115,170	19,488	17,849	13,387	15,065	11,013	38,368
Profit available for distribution	$1,562,926	$275,663	$239,781	$196,806	$174,659	$113,214	$562,803
Profit allocation:							
New Brunswick	$472,576	$82,031	$63,902	$57,412	$47,236	$37,021	$184,974
NEWFOUNDLAND	**383,621**	**74,117**	**69,173**	**54,627**	**43,664**	**30,840**	**111,200**
Nova Scotia	623,608	104,916	94,055	73,320	75,266	39,818	236,233
Prince Edward Island	83,121	14,599	12,651	11,447	8,493	5,535	30,396
	$1,562,926	$275,663	$239,781	$196,806	$174,659	$113,214	$562,803

Source: ALC's audited and internal financial statements

Since being established in 1976, ALC has reported sales in excess of $4.7 billion up to and including the fiscal year ended 31 March 1996. After prizes, commissions and other costs of approximately $3.1 billion, ALC has distributed profits of $1.56 billion to its shareholders. On behalf of its four shareholders, ALC is now directly involved in the annual management and control of more than $1 billion of public funds through its various gaming products and related activities.

Audit Objective

The objective of the audit was to review the systems and practices for the management and control of selected areas or aspects of ALC's operations.

Conclusions

1. Systems, Processes and Procedures

ALC is an established organization, with various systems, processes and procedures in place to manage and control its ongoing operational responsibilities. Considerable time and resources have been and continue to be invested in implementing new or updated systems and practices to support the corporation's operations and activities. The audit did not identify any significant control weakness that would impact upon the overall integrity of financial records of ALC. In addition, nothing was observed that would indicate that the integrity of ALC's lottery and other gaming products has been adversely affected.

2. Governance and Accountability

Changes necessary to improve the overall governance and accountability arrangements need to be considered. These include:

(a) The requirement to more precisely define ALC's status as a Crown agency.

ALC's status as a Crown agency and the jurisdictional boundary limits of provincial statutes are significant matters yet to be fully resolved. The inter-provincial agreements make it quite clear that ALC is "*...an agency of Her Majesty (i.e., the Crown) in the right of ...*" each of the shareholder provinces. There continues to be some question as to ALC's status as a Crown agency, and how ALC could or should deal with the various and different statutory and policy directives in the shareholder provinces.

(b) Concerns over the content and method of accountability reporting to the Legislature in each shareholder province.

While ALC does prepare an annual report, ALC's 1996 and earlier annual reports have not been tabled or deemed tabled in the Legislature of any of the shareholder provinces, including Newfoundland. Presently there is no obligation to provide accountability information to the Legislature in each shareholder province on the Corporation's financial and program plans and performance.

(c) Responsibility to more explicitly define the division of business and social responsibility for gaming between ALC and the shareholder governments.

While consideration of the social or societal consequences and implications of the corporation's products was not absent, performance in terms of sales and profits is the predominant focus for management and the Board. In light of the nature and extent of the changes in the lottery and gaming industry generally and specifically in Atlantic Canada, it would be appropriate for a clearer definition of the desired balance to be incorporated into ALC's mandate and its mission statement.

(d) The applicability of legislation from various shareholder provinces (e.g. wage restraint, financial budgeting and reporting).

Each shareholder jurisdiction has implemented budget/expenditure restraint (e.g. including wage freezes and/or rollbacks) to some degree and in differing ways. Since no decision or directive has been made with respect to which jurisdiction's requirements ALC must or should comply with, it is unclear as to which jurisdiction's requirements (statutory or policy directives) should be applied to ALC's operations and activities. For example, ALC management and staff did not experience the same rollbacks and wage freezes applied to public sector employees in the shareholder provinces, and both management and staff have received economic and merit increases in recent years.

3. Information Technology

ALC approved its Information Technology Strategy in 1992. The most significant initiative of the 1992 strategy, the New Retail Terminal Project, was actively underway when the audit was conducted in 1996. This project is intended to replace all existing on-line terminals at an estimated total cost of $31.2 million over the next three years.

Two major issues related to this project were identified during the audit.

(a) The 1992 Information Technology Strategy and related business plan indicated that the impact of the New Retail Terminal Project on profit would accumulate to $50.0 million by the end of 1997-98. However, these benefits should have been updated in 1996 when they commenced the project to determine if they were still valid.

(b) ALC should have estimated the net benefits in terms of future profit distributions to the shareholders, and formally presented this information to the Board. Also, the method of how depreciation on the terminals would be allocated amongst the shareholder provinces was raised as an issue, since the method selected will impact profit distribution amongst the provinces.

4. Procurement and Concerns over the Fairness and Equity of the Distribution of Corporate Activity among Shareholder Provinces.

In general, the review of procurement activities indicated ALC's procurement policies were being complied with.

However, ALC's inter-provincial agreements, corporate by-laws and Board resolutions do not provide any specific parameters with respect to achieving fair and equitable distribution of the economic impact or benefits provided by ALC expenditures to each of the four shareholder Provinces.

Despite the absence of direction on the delivery of economic benefits, Board members have maintained a steady interest in the distribution of ALC's procurement activity. Since 1990, ALC has prepared at least four reports titled the *Economic Benefits Analysis*. The reports appear to have originated at the request of the Board, and assign payments made to vendors and employees across the four Atlantic jurisdictions and resulting percentages of activity by province. Generally the studies assign activity to where the payments were directed, not necessarily where the goods or services were provided or consumed. The reports have made some attempt to adjust for this anomaly, particularly in the case of data line services, vehicle charges and advertising payments.

Figure 3 shows the results from the report of the fiscal year ended 31 March 1995.

5. Allocation of Profits to the Shareholder Provinces

ALC's profit allocation methodology was established in 1991 when the Video Lottery Program (VLP) was just being implemented. This program, which now represents 58% of ALC's net sales, is not charged with any of ALC's general overheads. Further, certain costs related to the VLP are being allocated instead to ALC's other games. This inconsistency has highlighted the need to re-examine the whole profit allocation methodology.

The manner in which costs and profit are currently being allocated results in certain shareholder provinces, in essence, subsidizing the results in other jurisdictions by having more than their share of direct costs charged against their net sales. This latter point is especially relevant to retail commissions and depreciation, which more reasonably should be charged directly to each province as opposed to being allocated based on net sales.

6. ALC's New Head Office Facilities

ALC's head office staff and related activities have been located in a combination of owned and rented office space for a number of years. In 1997, ALC's head office will be consolidated in premises in a newly renovated building in downtown Moncton under the terms of a 10-year lease.

The audit raised concerns about the adequacy of the audit/management trail supporting the Board's deliberations and decisions relating to the acquisition of ALC's new head office facilities, which will consolidate head office staff and related activities in one location. Although the issue of ALC's head office space was dealt with at numerous Board meetings, the net benefits to accrue to shareholders as a result of the additional costs to be incurred were not formally quantified and provided to the Board as part of its decision-making process. Further, it is unclear as to the extent of review, challenge or approval provided with respect to key assumptions made and analysis provided by management (i.e. average space standard per position and projections for staff growth).

Figure 3

Summary of Economic Benefits Study
1994-95 Fiscal Year

Jurisdiction	Total Value of Purchases and Salaries	% of ALC Total Purchases and Salaries	Jurisdiction's % of ALC's Net Revenue
Newfoundand	$ 6,861,342	11.88%	28.90%
Prince Edward Island	618,066	1.07%	5.30%
New Brunswick	15,446,876	26.75%	26.60%
Nova Scotia	11,089,013	19.20%	30.20%
Other	23,731,278	41.10%	
Totals	$ 57,746,575	100.00%	100.00%

Source: Economic Benefits Study

Further, the Board's decision by majority vote, was made at a time when one of the shareholders (Nova Scotia) was in the process of reviewing the structure and arrangements for the Corporation. The formal review regarding decentralization of ALC's activities had been commissioned but had not been finalized at the time the Board approved the new 10-year lease. The audit concluded that the decision should have been deferred until the review was completed.

Department's Response (Deputy Minister of Finance on behalf of the Corporation)

Systems, Processes and Procedures

ALC is pleased that the audit did not identify any significant control weaknesses that would impact upon the overall integrity of the financial records of the ALC, or its lottery and other gaming products.

Governance and Accountability

ALC believes that it is in compliance with shareholder provincial requirements. ALC responds in a timely fashion to any information request or directives from shareholders.

(a) *With respect to the issue of whether ALC is a Crown agency, ALC is federally incorporated and each of the four Atlantic Provinces owns one share. ALC believes this method was followed to demonstrate Atlantic Provincial co-operation. The issue of provincial Crown agency status is currently under review.*

(b) *With respect to concerns over the content and method of accountability reporting to the Legislature in each shareholder province, ALC is considering enhancements to its annual report. ALC's annual report is widely distributed and is available to all upon request. ALC will consider an even wider distribution.*

(c) *With respect to ALC's business and the issue of social responsibility, ALC's strategic plan is being updated. ALC is certainly conscious of societal issues, however these issues remain in the domain of the shareholders.*

(d) *With respect to legislation of the four shareholder provinces, ALC believes that it is in compliance with applicable provincial legislative requirements.*

Information Technology

When the Board of Directors of ALC approved its Information Technology strategic plan, they also directed that an independent audit on IT be conducted subsequent to the implementation of the strategic plan. This will be done. Also, shareholders have looked at the methodology for allocating costs from time to time and will continue to do so. This will be reviewed as part of an economic benefit study.

Procurement and Concerns over the Fairness and Equity of the Distribution of Corporate Activity among Shareholder Provinces

While ALC is not subject to the requirements of the Atlantic Procurement Agreement, the Board instructed ALC management in 1994 to incorporate, wherever possible, the general intent of the Agreement into the procurement policies. Also, a quarterly report is now being prepared for the information of the Board in a manner consistent with the Agreement.

Allocation of Profits to the Shareholder Provinces

Shareholders have looked at this from time to time. Circumstances are constantly changing and it may be timely to do so once again.

ALC's New Head Office Facilities

This decision was made only after numerous reviews of the options by the Board of Directors of ALC. It is the ALC view that the decision was in the best interests of the Corporation and the shareholder provinces.

3.10 Review of Government's Pension Plans

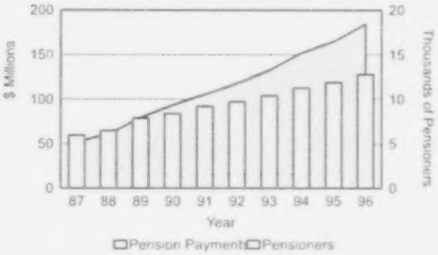
Introduction

Prior to 1967, public service pensions in the Province were paid under the authority of the *Civil Service Act*. These pensions were non-contributory and as such employees and Government were not required to make contributions to a pension plan. The Province was paying 100% of the annual pension benefits out of the Consolidated Revenue Fund. In 1967, legislation was enacted which required that employees contribute to a pension plan along with the Province. These employee contributions were paid into the Consolidated Revenue Fund and pension benefits continued to be paid out of it. It was not until 1981 when legislation, the *Pensions Funding Act*, was enacted to create a separate fund for the funding of public service pensions. This legislation required that employee and employer pension premium contributions be paid into a separate fund, the Province of Newfoundland Pooled Pension Fund. The affairs of the Fund are managed by the Minister of Finance, as Trustee of the Fund. The Fund is comprised of four pension plans: the Public Service Pension Plan, the Teachers' Pension Plan, the Uniformed Services Pension Plan and the Members of the House of Assembly Pension Plan. The Teachers' Pension Plan includes the Teachers' Ancillary Pension Plan.

Since 1 January 1987 the number of pensioners receiving benefits under the various plans has increased from 6,000 to 12,800 while total pension payments have increased from $52.5 million to $185.0 million as illustrated in Figure 1. The average annual pension has increased from $8,822 to $14,461.

Figure 1

Province of Newfoundland Pooled Pension Fund
Pensioners and Pension Payments
Years Ended 31 December



Source: Department of Finance, Pensions Division Payroll Database.

Figure 2

Province of Newfoundland Pooled Pension Fund - Pension Payments by Type
Years Ended 31 December
($ 000's)

Year	Normal	Early	Disability	Redundancy	Survivor	Exgratia HARTT	Total
1987	$ 21,860	$ 13,651	$ 6,968	$ 883	$ 4,961	$ 4,186	$ 52,509
1988	25,202	16,925	8,527	1,590	5,873	3,323	61,440
1989	30,274	28,078	10,052	2,412	6,537	2,167	79,520
1990	35,671	35,447	11,237	3,241	7,233	989	93,818
1991	38,611	39,739	12,585	6,163	7,788	671	105,557
1992	40,103	46,503	13,917	8,175	8,487	818	118,003
1993	42,084	57,263	15,005	8,170	9,218	1,059	132,799
1994	44,100	72,315	16,716	7,987	9,902	1,271	152,291
1995	44,447	82,739	17,961	7,902	10,428	1,472	164,949
1996	44,477	100,383	19,403	7,830	11,244	1,632	184,969

Source: Department of Finance, Pensions Division Payroll Database

As indicated in Figure 2, early retirement has accounted for most of the increase in pension payments over the past ten years, from $13.7 million in 1987 to $100.4 million in 1996. In order for employees to be eligible for “early retirement”, they must meet specific criteria established by the individual plan. Disability pensions also increased significantly from $7.0 million in 1987 to $19.4 million in 1996.

The large increase in pensions and pensioners has contributed to the financial uncertainty of each of the pension plans. At 31 March 1997 the plans had an estimated unfunded liability of $3.1 billion as shown in Figure 3.

Figure 3

Government Pension Plans
Unfunded Liabilities
31 March 1997
($ 000's)

Pension Plan	Unfunded Liability
Public Service Pension Plan	$ 1,241,600
Teachers' Pension Plan	1,490,800
Uniformed Services Pension Plan	171,400
Members of the House of Assembly Pension Plan	39,100
Unfunded Liability Guaranteed by the Province	**2,942,900**
Teachers' Ancillary Pension Plan (1)	206,062
Total	$ 3,148,962

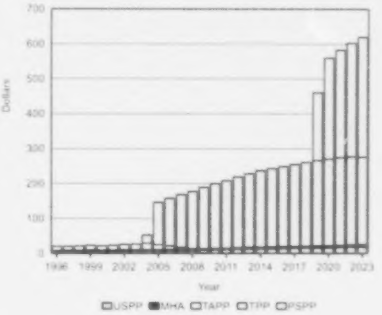
Source: Province of Newfoundland Consolidated Revenue Fund Pension Note Disclosure 31 March 1997

(1) The amount presents the estimated unfunded liability as at 31 August 1996 as valuated by the Province's Consulting Actuary. The Province does not provide a deficiency guarantee for the Teachers' Ancillary Pension Plan.

The Uniformed Services and the Members of the House of Assembly Pension Plans do not have any assets and already require deficiency payments. As of November 1996 the Teachers' Ancillary Pension Plan had exhausted its funds and began borrowing from the Teachers' Pension Plan in order to continue paying benefits to members. According to the latest actuarial reports, all assets in the Teachers' Pension Plan will be depleted in the year 2004 and in the year 2019 for the Public Service Pension Plan. However, the lending of funds to the Teachers' Ancillary Pension Plan will hasten the bankruptcy of the Teachers' Pension Plan by one year, to 2003. Figure 4 shows the estimated deficiency payments required for each of the four plans and the Teachers' Ancillary Pension Plan from 1996 to 2023.

Figure 4

Government Pension Plans
Deficiency Payments Required
1996 to 2023
($ Millions)



Source: Actuarial reports.

Commencing during the fiscal year 1997-98, Government is proposing to make special payments to the Public Service Pension Plan. Government has announced that it will contribute $30 million in each of 1997-98 and 1998-99. Every year after that it will continue with payments of at least $40 million per year until the pre-1980 debt is repaid. In addition, Government is proposing to increase the contributions for employees and employers over the next four years. This will extend the life of the plan beyond the year 2030.

Scope and Objectives

In November 1996, we commenced a review of the pensions paid by the Province of Newfoundland Pooled Pension Fund from 1 January 1987 to 31 December 1996. The objectives of this review were to assess:

- the adequacy of management systems and practices for determining eligibility for pension benefits and for monitoring continuing eligibility of beneficiaries; and

- the adequacy and accuracy of financial and other information for reporting on the pensions managed by the fund.

Conclusions

Over the past 10 years pension payments have more than tripled, increasing from $52.5 million in 1987 to $185.0 million in 1996. The number of beneficiaries has also doubled over the same period from 6,000 to 12,800. Our review disclosed that eligibility for pension benefits is determined in accordance with applicable legislation; however, we note the following:

- Since 1994, eligibility for disability benefits under a pension plan is based on the recommendations of the Pensions Division's medical consultant that the disability is permanent. Prior to this time pension eligibility was based on the assessment of the examining physician and in some instances specialists.

  Our review disclosed a number of cases where the doctor's assessment indicated that the disability may not be permanent. However, there was no follow up to determine if the employee could return to work.

- Government policy applicable to government departments, Crown agencies and Crown corporations requires that preference be given to hiring persons other than those in receipt of a pension under one of the four public sector pension plans, unless there are no other persons qualified to fill the position. All exceptions to this policy require Cabinet approval. As a control, the Pensions Division regularly performs a comparison of the pension payroll to the annual listing of individual pension contributors sent in from the various agencies and anybody who is contributing to a pension plan while drawing a pension is investigated. However, this process does not detect re-employed pensioners who are not contributing to a pension plan.

  Our review of the general service and teachers' payrolls identified 149 employees who received both a salary and a pension in 1996. Salaries ranged from $25 to $43,234 while pensions ranged from $2,108 to $60,926. Of the 149 employees only 2 had received Cabinet approval as required by government policy.

  While many of the amounts paid are small, Government's policy does not provide any exemption based on the dollar value of the pension or salary being paid.

- The unfunded liability of public sector pension plans is estimated to be $3.1 billion as at 31 March 1997. The unfunded pension liability is the amount by which the present value of estimated future pension benefits exceeds the assets in the pension plan.

  - Three of the five pension plans are already depleted of assets. The Uniformed Services Pension Plan and the Members of the House of Assembly Pension Plan required payments from the Province of $6.3 million and $1.4 million respectively in 1996 in order to pay pension benefits to pensioners. The Teachers' Ancillary Pension Plan was depleted of assets in 1996 and borrowed $1.9 million from the regular Teachers' Pension Plan during that year to pay pension benefits.

- Borrowing by the Teachers' Ancillary Pension Plan from the regular Teachers' Pension Plan, as negotiated in the teachers' collective agreement, contravenes the *Teachers' Pension Act* which states that benefits payable under the Ancillary Plan shall only be paid to the extent funds are available in the Ancillary Plan to pay the benefits.

- The Teachers' Pension Plan is projected to be depleted of assets by 2004 or by 2003 should it be used to cover the deficiencies of the Teachers' Ancillary Pension Plan. The Public Service Pension Plan was expected to be depleted of assets by 2019. However, with Government's special payments and the additional contributions, it is estimated that the Public Service Pension Plan's assets will not be depleted before 2030.

- Deficiency payments of $7.7 million were paid by the Province in 1996 for the two pension plans already depleted of assets (the Uniformed Services Pension Plan and the Members of the House of Assembly Pension Plan). Deficiency payments by the Province are expected to increase to $120 million in 2004 when the Teachers' Pension Plan is expected to be depleted of assets and to $460 million in 2019 if the extra payments are not made to the Public Service Pension Plan.

Findings

Public Service Pension Plan

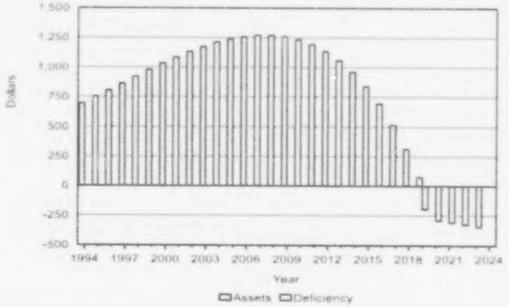
The Public Service Pension Plan currently receives its authority under the *Public Service Pensions Act, 1991*. The plan is a contributory defined benefit pension plan covering full-time employees of the Province and various Crown corporations, agencies and commissions created by or under a statute of the Province.

Contributions to the plan are shared by members and the Province or government entity. Members contribute 6.6% of earnings up to the Canada Pension Plan (CPP) basic exemption, plus 4.8% of the member's salary between the basic exemption and the maximum pensionable earnings as defined under the CPP, plus 6.6% of the member's salary in excess of the maximum amount. The Province or sponsoring entity contributes an equal amount plus any additional amounts as prescribed.

Contributions to the Plan and related investment income are used to pay pensions to members on retirement, disability or death. From 1 January 1987 to 31 December 1996 annual pension payments, including exgratia, increased from $31.5 million to $93.4 million while the number of pensioners increased from approximately 4,300 to 8,600. The actuarial valuation as at 31 December 1994 indicates that this trend will continue and payments are expected to reach $432.0 million by the year 2018. The valuation indicates that plan assets will be depleted in the year 2019, as illustrated in Figure 5, and deficiency payments will be required to sustain the level of members' pensions.

Figure 5

Public Service Pension Plan
Projected Assets and Deficiencies
1994 to 2024
($ Millions)



Source: 31 December 1994 actuarial report

Government has taken action to address the expected deficiency by proposing to make extra payments of $30 million in each of the 1997-98 and 1998-99 fiscal years and at least $40 million each year thereafter until the pre-1980 debt is repaid. Government is proposing to increase the contributions for employees and employers over the next four years. These steps are expected to extend the life of the Plan beyond the year 2030.

1. Management Systems and Practices

Pension benefits are payable to members on their retirement which is defined in the *Public Service Pensions Act, 1991* to be when a member reaches retirement age or where an employee is unable to perform his or her duties owing to a disability that is likely to be permanent. Under previous legislation, the *Public Service (Pensions) Act,* a member was also considered to be retired where the position held by the employee was abolished. Figure 6 shows the pension payments by type of pension for the years ended 31 December.

Eligibility for a disability pension is based on a report of the Division's medical advisor who reviews the medical certificate signed by the

Figure 6

Public Service Pension Plan
Pension Payments by Type
Years Ended 31 December
($ 000's)

Year	Normal	Early	Disability	Redundancy	Survivor	Exgratia HARTT	Total
1987	$ 7,355	$ 11,874	$ 4,630	$ 883	$ 3,709	$ 3,007	$ 31,458
1988	8,165	14,550	5,526	1,562	4,426	2,360	36,589
1989	8,830	24,863	6,382	2,371	4,912	1,617	48,975
1990	9,047	31,642	6,855	3,187	5,442	779	56,952
1991	9,028	33,780	7,501	6,073	5,909	549	62,840
1992	8,963	36,396	8,258	8,081	6,404	779	68,881
1993	8,869	39,665	8,871	8,078	6,848	1,057	73,388
1994	8,583	44,289	9,920	7,895	7,429	1,271	79,387
1995	8,433	48,625	10,484	7,811	7,621	1,472	84,446
1996	8,191	56,159	11,441	7,738	8,237	1,632	93,398

Source: Department of Finance, Pensions Division Payroll Database.

plicant's physician and reports from other physicians including those hired by the medical advisor to re-examine the applicant to determine that the disability is likely to be permanent. A review of 55 of 1,335 disability pensioners disclosed that 24 had disabilities related to back pain or injury, 8 were for heart disease, 5 were for depression, 2 did not have the disability disclosed, 15 were for various ailments, and 1 had been coded as a disability pension in error. Of the 54 disability pensions, the physician's assessment in 50 cases indicated that the disability was permanent; however, in the other 4 cases the physician indicated that the length of disability was unpredictable. The Division relied on the opinion of its medical advisor who recommended the disability pension and there has been no follow-up to determine if these applicants are now able to return to work.

Prior to 31 May 1991 members were eligible for a pension where the employee's position was abolished or services were no longer required as a result of a reorganization. For the year ended 31 December 1996 approximately 540 pensioners received a redundancy pension. Our review of a sample of 22 pensioners disclosed that 1 pensioner, who was receiving a redundancy pension, was rehired; however, it was almost a year before the Pensions Division was notified and the pension terminated.

The Province has also implemented a policy whereby preference in hiring is given to persons who are not in receipt of pension benefits from any plan sponsored by the Province, unless no other qualified persons are available. Exceptions to this policy must be approved by Cabinet. The policy does not set any limits on the amount of pension or salary being paid. As a control, the Pensions Division regularly performs a comparison of the pension payroll to the annual listing of contributors sent in from the various agencies and anybody who is contributing to a pension plan while drawing a pension is investigated. However, this process does not detect re-employed pensioners not contributing to a plan. As part of our review, we compared the general service and teachers' payrolls for 1996 to the pension payroll. Our review disclosed that 35 Public Service Plan pensioners were on these payrolls and were paid over $400,000 in salaries. Only 1 of the 35 pensioners was approved by Cabinet. Figure 7 summarizes the results of our findings.

Figure 7

Public Service Pension Plan
Exgratia and Public Service Pensioners on Government Payrolls
Year Ended 31 December 1996

Range of Annual Wages	Number of Pensioners: General Service Payroll	Number of Pensioners: Teachers' Payroll	Total Salary	Total 1996 Pension
$0 to $499	11	2	$ 2,482	$ 218,861
$500 to $999	2	0	1,400	27,516
$1,000 to $4,999	3	1	16,534	96,972
$5,000 to $9,999	5	0	40,715	83,716
$10,000 to $14,999	1	1	24,844	47,999
$15,000 to $19,999	0	1	19,986	26,862
$20,000 to $29,999	1	0	20,720	10,110
$30,000 to $39,999	0	3	110,978	29,072
Over $40,000	1	3	168,423	92,027
Total	24	11	$ 406,082	$ 633,135

Source: Department of Finance, Pensions Division Payroll Database and Payroll Division Payroll Database; Department of Education, Teachers' Payroll Division Payroll Database.

2. Financial and Other Information

The Province of Newfoundland Pooled Pension Fund prepares annual financial statements, an annual communication to members and every three years an actuarial report is prepared to determine the funded status of the Plan. Other than these reports there are no management reports on matters such as beneficiary profile data (age, type of pension, reason for disability), rate of applicants accepted, number taken off pension due to rehiring, time and cost to process applications, and number of disability applications referred to specialists.

The actuarial valuation is used as the basis to estimate the unfunded liability of the Plan for the Province's annual financial statements. The actuary has estimated this liability to be $1.242 billion as at 31 March 1997 as compared to $1.159 billion as at 31 March 1996 even though current plan members contributed $16.1 million more than their related benefit accrued. Figure 8 shows estimated current service cost for 1998 as compared to the estimated contributions.

Figure 8

Public Service Pension Plan
Estimated Current Service Cost
Year Ended 31 March 1998

Description	Amount
Estimated member contributions	$41,458,760
Estimated Government contributions	43,307,825
	84,766,585
Present value of benefits expected to be accrued in respect for services in fiscal 1998	68,259,495
Estimated current service surplus	$16,507,090

Source: Department of Finance, support for the 31 March 1997 Pension Note Disclosure

Teachers' Pension Plan

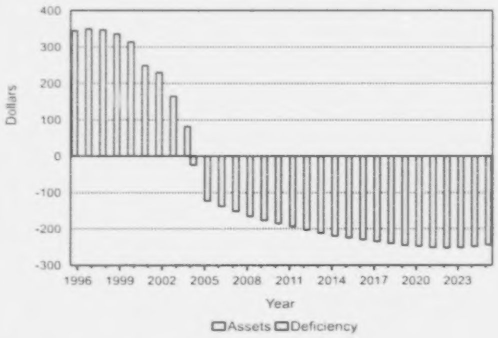
The Teachers' Pension Plan receives its authority under the *Teachers' Pensions Act*. The Plan is a contributory defined benefit pension plan covering teachers as defined under the Act and full-time employees of the Newfoundland and Labrador Teachers' Association.

Contributions to the Plan are shared by members and the Province or the Association. Members contribute 6% of earnings. The Province or the Association contributes an equal amount plus any additional amounts as prescribed.

Contributions to the Plan and related investment income are used to pay pensions to members on retirement, disability or death. From 1 January 1987 to 31 December 1996 annual pension payments increased from $16.5 million to $55.1 million while the number of pensioners increased from 1,300 to 2,700. The actuarial valuation as at 31 August 1996 indicates that this trend will continue and payments are expected to reach $133 million in the year 2003. This valuation indicates that Plan assets will be depleted in the year 2004, as illustrated in Figure 9, and deficiency payments will be required to sustain the level of members' pensions.

Figure 9

Teachers' Pension Plan
Projected Assets and Deficiencies
1996 to 2025
($ Millions)



Source: 31 August 1996 actuarial report

There is a provision under the teachers' collective agreement for the Teacher's Ancillary Pension Plan to borrow from the Teachers' Pension Plan should the Ancillary Plan be exhausted of assets although the legislation does not permit this. The valuation indicated that the lending of funds to the Teachers' Ancillary Pension Plan will hasten the bankruptcy of the Teachers' Pension Plan by one year, to 2003.

1. Management Systems and Practices

Pension benefits are payable to members on their retirement. The *Teachers' Pensions Act* defines an employee as retired when a member reaches the normal retirement age of 60 years, where an employee is unable to perform his or her duties owing to a disability that is likely to be permanent or where the member has chosen early retirement at age 55 with 25 years of pensionable service. Figure 10 shows these pension payments by type of pension for the years ended 31 December.

Eligibility for a disability pension is based on a report of the Division's medical advisor who reviews the medical certificate signed by the applicant's physician and reports from other physicians including those hired by the medical advisor to re-examine the applicant to determine that the disability is likely to be permanent. A review of 16 of 393 such certificates disclosed that depression or stress accounted for 6 disabilities, 3 were for back pain and the remaining 7 were for various ailments. The physician's assessment in 15 cases indicated that the disability was permanent; however, in the other case the physician indicated that it was possible that surgery would offer some improvement to the applicant. There has been no follow-up to determine if this applicant is now able to return to work.

To determine compliance with the Government's policy on the hiring of persons who are in receipt of pension benefits from any plan sponsored by the Province, the Pensions Division of the Department of Finance regularly performs a comparison of the pension payroll to the annual listing of contributors sent in from Teachers' Payroll. Persons in receipt of a pension and a salary are investigated and

Figure 10

Teachers' Pension Plan
Pension Payments by Type
Years Ended 31 December
($ 000's)

Year	Normal	Early	Disability	Survivor	Uncoded	Total
1987	$ 12,341	$ 451	$ 2,102	$ 873	$ 754	$ 16,521
1988	14,557	572	2,689	1,017	605	19,440
1989	18,691	612	3,339	1,119	356	24,117
1990	23,490	615	4,037	1,223	145	29,510
1991	26,117	1,662	4,667	1,309	83	33,838
1992	27,474	4,116	5,217	1,448	27	38,282
1993	29,291	7,772	5,629	1,549	2	44,243
1994	31,216	11,119	6,283	1,766	0	50,384
1995	31,361	12,520	6,906	2,046	0	52,833
1996	31,266	14,190	7,411	2,214	0	55,081

Source: Department of Finance, Pensions Division Payroll Database.

corrective action is taken. However, this process does not detect re-employed pensioners who are not contributing to a pension plan. As part of our review we compared the general service and teachers' payrolls for 1996 to the pension payroll. Our review disclosed that 62 Teachers' Pension Plan pensioners were on these payrolls and were paid approximately $50,000. None of the 62 pensioners were approved by Cabinet. Figure 11 summarizes the results of our findings.

Figure 11

Teachers' Pension Plan
Pensioners on Government Payrolls
Year Ended 31 December 1996

Range of Annual Wages	Number of Pensioners		Total Salary	Total 1996 Pension
	General Service Payroll	Teachers' Payroll		
$0 to $499	11	36	$9,826	$1,302,611
$500 to $999	1	7	5,572	259,948
$1,000 to $4,999	0	6	13,060	179,235
$5,000 to $9,999	0	0	0	0
$10,000 to $14,999	0	0	0	0
$15,000 to $19,999	0	0	0	0
$20,000 to $29,999	1	0	21,199	11,339
$30,000 to $39,999	0	0	0	0
Over $40,000	0	0	0	0
Total	13	49	$49,657	$1,753,133

Source: Department of Finance, Pensions Division Payroll Database and Payroll Division Payroll Database; Department of Education, Teachers' Payroll Division Payroll Database.

Thirteen pensioners were receiving both a pension and a payment from the general service payroll and 49 from teachers' payroll. The *Teachers' Pensions Act* prohibits a teacher from receiving both a pension and a payment as a teacher. Section 24.(4) of the Act permits a teacher to be re-employed for a total of 65 days during the school year with the approval of the Minister of Education. Approval was given to 19 of the 49 teachers in Figure 11 and Teachers' Payroll Division, Department of Education, was monitoring the number of days that these retired teachers were teaching to ensure that it did not exceed 65 days.

2. Financial and Other Information

The Province of Newfoundland Pooled Pension Fund prepares annual financial statements, an annual communication to members and every three years an actuarial report is prepared to determine the funded status of the plan and the contribution requirements until the next scheduled actuarial valuation. Other than these reports there are no management reports on matters such as beneficiary profile data (age, type of pension, reason for disability), rate of applicants accepted, number taken off pension due to rehiring, time and cost to process applications, and number of disability applications referred to specialists.

The actuarial valuation is used as the basis to estimate the unfunded liability of the Plan for the Province's annual financial statements. The actuary has estimated this liability to be $1.49 billion as at 31 March 1997 as compared to $1.38 billion as at 31 March 1996 even though plan members contributed $1.4 million more than the related benefit accrual for the same period. Figure 12 shows the estimated current service cost for 1998 compared to the estimated contributions.

Figure 12

Teachers' Pension Plan
Estimated Current Service Cost
Year Ending 31 March 1998

Description	Amount
Estimated member contributions	$22,778,358
Estimated Government contributions	22,778,358
	45,556,716
Present value of benefits expected to be accrued in respect for services in fiscal 1998	44,101,454
Estimated current service surplus	$ 1,455,262

Source: Department of Finance, support for the 31 March 1997 Pension Note Disclosure

Teachers' Ancillary Pension Plan

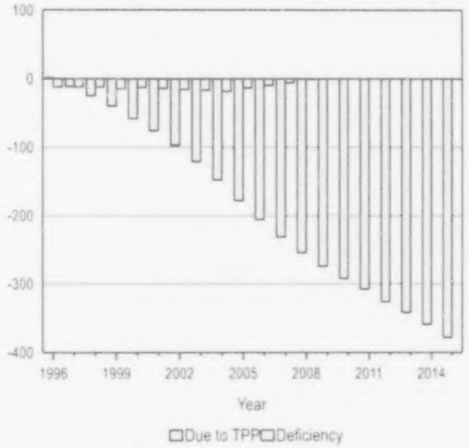
The Teachers' Ancillary Pension Plan was established in 1988 as a result of the collective agreement between the Province and the Newfoundland and Labrador Teachers' Association. This Plan was designed to provide for the payment of pension benefits under the special early retirement provisions of the collective agreement for those teachers who retired after 30 June 1989 and who are less than 55 years of age.

Contributions to the Plan are shared by members and the Province or the Association. Members contribute 2% of earnings. The Province or the Association contributes an amount equal to that of its respective members plus any additional amounts as prescribed.

Contributions to the Plan and related investment income are used to pay pensions to members on retirement, disability or death. From implementation to 31 December 1996 annual pension payments increased to $23 million while the number of pensioners increased to 863. The actuarial valuation as at 31 August 1996 indicates that this trend will continue and payments are expected to peak at $31.7 million in the year 2004. The actuary had predicted that the plan's assets would be depleted in 1997 and the Plan would have to borrow from the Teachers' Pension Plan, as illustrated in Figure 13.

Figure 13

Teachers' Ancillary Pension Plan
Projected Amount Due to Teachers' Pension Plan and Deficiencies
1996 to 2015
($ Millions)



Source: 31 August 1996 actuarial report

1. Management Systems and Practices

The Teachers' Ancillary Pension Plan permits teachers with 30 years worked service to retire at any age without penalty. It also permits teachers with 29 years worked service and at least 30 years pensionable service to retire prior to age 55 with a reduction factor penalty. This Plan was established in 1988 and since 1990 when information was provided separately from the Teachers' Pension Plan, approximately $99.7 million has been paid for the early retirement of teachers while only $81.5 million in premiums has been paid into the plan as shown in Figure 14.

Figure 14

Teachers' Ancillary Pension Plan
Pension Receipts and Payments
Years Ended 31 December
($ 000's)

Year	Contributions	Investment Income	Pensions	Interest	Administrative Costs	Total
1989						$ 8,164
1990	$ 6,703	$ 72	$ 4,367	$ 0	$ 32	10,540
1991	7,610	1,807	6,443	0	47	13,467
1992	10,803	684	8,527	0	57	16,370
1993	14,901	3,895	13,274	0	51	21,841
1994	13,319	328	20,220	0	54	15,214
1995	14,329	870	21,480	0	38	8,895
1996	13,792	834	25,350	58	11	(1,898)
Total	$ 81,457	$ 8,490	$ 99,661	$ 58	$ 290	

Source: Audited financial statements of the Province of Newfoundland Pooled Pension Fund.

Although the actuary had predicted that the Teachers' Ancillary Pension Plan would be depleted of funds approximately June 1997, the plan was exhausted of funds in November 1996. The Department of Finance permitted the Plan to borrow from the Teachers' Pension Plan, as per the teachers' collective agreement, in order to sustain the level of members' pensions. This is in contravention of Section 47(7) of the *Teachers' Pensions Act* which states that benefits payable under the Teachers' Ancillary Pension Plan shall only be paid to the extent that funds are available in the Teachers' Ancillary Pension Plan to pay for these benefits.

To determine compliance with the Government's policy on the hiring of persons who are in receipt of pension benefits from any plan sponsored by the Province, the Pensions Division of the Department of Finance regularly performs a comparison of the pension payroll to the annual listing of contributors sent in from Teachers' Payroll. However, this process does not detect re-employed pensioners not contributing to a plan. As part of our review we compared the general service and teachers' payrolls for 1996 to the pension payroll. Our review disclosed that 38 Teachers' Ancillary Pension Plan pensioners were on these payrolls and were paid over $50,000. None of the 38 pensioners were approved by Cabinet. Figure 15 summarizes the results of our findings.

Figure 15

Teachers' Ancillary Pension Plan Pensioners on Government Payrolls Year Ended 31 December 1996

Range of Annual Wages	Number of Pensioners		Total Salary	Total 1996 Pension
	General Service Payroll	Teachers' Payroll		
$0 to $499	4	14	$ 4,163	$ 548,296
$500 to $999	1	8	6,792	302,323
$1,000 to $4,999	1	9	22,453	292,087
$5,000 to $9,999	0	0	0	0
$10,000 to $14,999	0	0	0	0
$15,000 to $19,999	0	0	0	0
$20,000 to $29,999	1	0	20,258	35,254
$30,000 to $39,999	0	0	0	0
Over $40,000	0	0	0	0
Total	7	31	$ 53,666	$ 1,177,960

Source: Department of Finance, Pensions Division Payroll Database and Payroll Division Payroll Database; Department of Education, Teachers' Payroll Division Payroll Database.

Seven pensioners were receiving both a pension and a payment from the general service payroll and 31 from teachers' payroll. The *Teachers' Pensions Act* prohibits a teacher from receiving both a pension and a payment as a teacher. Section 24.(4) of the Act permits a teacher to be re-employed for a total of 65 days during the school year with the approval of the Minister of Education. Approval was given to 10 of the 31 teachers in Figure 15 and Teachers' Payroll Division was monitoring the number of days that these retired teachers were teaching to ensure that it did not exceed 65 days.

2. Financial and Other Information

Our review of the audited financial statements as at 31 December 1996 disclosed that the Teachers' Ancillary Pension Plan had already depleted all assets in the fund. In addition, a review of the most recent actuarial valuation at 31 August 1996 indicated the unfunded liability had increased from $151 million to $206 million or 36% over the 31 August 1994 valuation.

The biggest contributor to the increase in the unfunded pension liability was the impact of the changes in assumptions, including the increase in the number of retirements. The actuarial valuation assumed 208 retirements, however there were 416 actual retirements, while the average age of those retiring decreased from 52.3 years to 50.6 years. Making a positive contribution to the unfunded liability was the excess contributions of the current service. From August 1994 to August 1996 members contributed $20 million more than their accrued benefits. For the following year ending 31 August 1997 members were expected to contribute $8.6 million in excess of their current service cost as disclosed in Figure 16.

Figure 16

Teachers' Ancillary Pension Plan Estimated Current Service Cost Year Ending 31 August 1997

Description	Amount
Estimated member contributions	$ 6,832,000
Estimated Government contributions	6,832,000
	13,664,000
Present value of benefits expected to be accrued in respect for services in 1997	5,046,000
Estimated current service surplus	$ 8,618,000

Source: 31 August 1996 actuarial report

Our review also disclosed that there were five pensioners over the age of 55 who were receiving pensions from the Teachers' Ancillary Pension Plan when in fact they should have been transferred to the regular Teachers' Pension Plan when they reached 55. As a result, the Teachers' Ancillary Pension Plan was overcharged approximately $500,000.

Uniformed Services Pension Plan

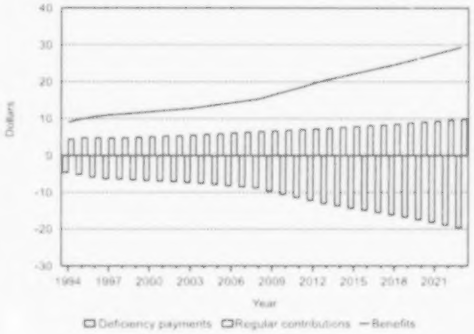
The Uniformed Services Pension Plan was established 1 April 1967 and is continued under the *Uniformed Services Pensions Act, 1991*. The Plan is a contributory defined benefit pension plan covering employees of the Royal Newfoundland Constabulary, the St. John's Regional Fire Department and Her Majesty's Penitentiary.

Contributions to the Plan are shared by members and the Province or other entity. Members contribute 8.5% of earnings up to the CPP basic exemption, plus 6.7% of the member's salary between the basic exemption and the maximum pensionable earnings as defined under the CPP, plus 8.5% of the member's salary in excess of the maximum amount. The Plan sponsor contributes an amount equal to that of its respective members plus any additional amounts as prescribed.

Contributions to the Plan and related investment income are used to pay pensions to members on retirement, disability or death. From 1 January 1987 to 31 December 1996 annual pension payments increased from $3.8 million to $10.3 million while the number of pensioners increased from 285 to 489. The actuarial valuation as at 31 December 1993 indicates that this trend will continue and payments are expected to reach $29.4 million in the year 2023. The Plan is operated on a pay-as-you-go basis and as such the Plan does not accumulate assets. In 1996, $6.3 million in deficiency payments was required from the Province to sustain the level of members' pensions. The actuarial valuation indicates that payments will increase to $19.6 million in the year 2023, as illustrated in Figure 17.

Figure 17

Uniformed Services Pension Plan
Actuary Cash Flow Projections
1994 to 2023
($ Millions)



Source: 31 December 1993 actuarial report

1. Management Systems and Practices

Pension benefits are payable to members on their retirement. The *Uniformed Services Pensions Act, 1991* defines an employee as retired when a member reaches normal retirement age of 60 years, where an employee is unable to perform his or her duties owing to a disability that is likely to be permanent or where the member has chosen early retirement. Figure 18 shows these pension payments by type of pension for the years ended 31 December.

Figure 18

Uniformed Services Pension Plan
Pension Payments by Type
Years Ended 31 December
($ 000's)

Year	Normal	Early	Disability	Redundancy	Survivor	Uncoded	Total
1987	$2,123	$ 826	$236	$	$298	$366	$3,849
1988	2,438	1,187	312	28	342	288	4,595
1989	2,679	1,447	331	40	400	154	5,051
1990	2,922	1,791	346	45	444	37	5,585
1991	3,148	2,518	417	77	440	12	6,612
1992	3,392	2,971	442	81	469	0	7,355
1993	3,657	3,424	505	79	646	0	8,311
1994	4,040	3,796	513	79	528	0	8,956
1995	4,402	4,040	571	79	575	0	9,667
1996	4,600	4,520	552	79	588	0	10,339

Source: Department of Finance, Pensions Division Payroll Database.

Eligibility for a disability pension is based on a report of the Division's medical advisor who reviews the medical certificate signed by the applicant's physician and reports from other physicians including those hired by the medical advisor to re-examine the applicant to determine that the disability is likely to be permanent. A review of 12 of 33 such certificates disclosed that five of the disabilities were depression, three were for back pain, one was for a head injury and three were for heart conditions or strokes. In one case the physician indicated uncertainty as to how long the disability would continue; however, there was no follow-up to determine if this applicant could return to work.

To determine compliance with the Government's policy on the hiring of persons who are in receipt of pension benefits from any plan sponsored by the Province, the Pensions Division of the Department of Finance regularly performs a comparison of the pension payroll to the annual listing of contributors sent in from the various agencies and anybody who is contributing to a pension plan while drawing a pension is investigated. However, this process does not detect re-employed pensioners not contributing to a plan. As part of our review we compared the general service and teachers' payrolls for 1996 to the pension payroll. Our review disclosed that 14 uniformed services pensioners were on these payrolls and were paid over $200,000. Only 1 of the 14 pensioners was approved by Cabinet. Figure 19 summarizes the results of our findings.

Figure 19

Uniformed Services Pension Plan Pensioners on Government Payrolls Year Ended 31 December 1996

Range of Annual Wages	Number of Pensioners: General Service Payroll	Number of Pensioners: Teachers' Payroll	Total Salary	Total 1996 Pension
$0 to $499	0	0	$ 0	$ 0
$500 to $999	0	0	0	0
$1,000 to $4,999	0	0	0	0
$5,000 to $9,999	4	0	28,239	79,105
$10,000 to $14,999	0	0	0	0
$15,000 to $19,999	5	0	90,572	102,465
$20,000 to $29,999	4	0	84,826	70,854
$30,000 to $39,999	1	0	33,766	31,163
Over $40,000	0	0	0	0
Total	14	0	$ 237,403	$ 283,587

Source: Department of Finance, Pensions Division Payroll Database and Payroll Division Payroll Database; Department of Education, Teachers' Payroll Division Payroll Database.

2. Financial and Other Information

The Uniformed Services Pension Plan has been operating on a pay-as-you-go basis and as such it does not accumulate assets. Over the past 10 years Government has had to make deficiency payments as disclosed in Figure 20.

Every three years the Province engages the services of an actuary to determine the funded status of the Plan and the contribution requirements until the next scheduled actuarial valuation of the Plan. The actuary uses this information as a basis to estimate the unfunded liability for the Province's financial statements and has put the unfunded liability of the plan at $171.4 million as at 31 March 1997. The actuary expects that this liability will increase to $389 million in the year 2023 although for next year to 31 March 1998 current members are expected to contribute $1.1 million in excess of their current service cost as disclosed in Figure 21.

Figure 20

Uniformed Services Pension Plan Fund Transactions Years Ended 31 December

Year	Contributions: Government	Contributions: Member	Deficiency Payments	Pensions	Refunds	Expenses	Balance
1987	$ 1,250,500	$ 1,250,500	$ 1,477,000	$ 3,827,000	$ 41,000	$ 110,000	$ 0
1988	1,209,500	1,209,500	2,255,000	4,543,000	11,000	120,000	0
1989	1,421,500	1,421,500	2,269,000	4,991,000	10,000	111,000	0
1990	1,398,000	1,398,000	2,939,000	5,562,000	48,000	125,000	0
1991	2,500,000	2,500,000	1,693,000	6,556,000	38,000	99,000	0
1992	2,565,000	2,565,000	2,350,000	7,316,000	70,000	94,000	0
1993	1,957,000	2,419,000	3,917,000	8,125,000	81,000	87,000	0
1994	2,275,000	2,300,000	4,463,000	8,930,000	5,000	103,000	0
1995	2,252,000	2,254,000	5,350,000	9,657,000	108,000	91,000	0
1996	2,052,000	2,055,000	6,338,000	10,329,000	47,000	69,000	0
Total	$ 18,880,500	$ 19,372,500	$ 33,051,000	$ 69,836,000	$ 459,000	$ 1,009,000	$ 0

Source: Audited financial statements of the Province of Newfoundland Pooled Pension Fund.

Figure 21

Uniformed Services Pension Plan
Estimated Current Service Cost
Year Ended 31 March 1998

Description	Amount
Estimated member contributions	$ 2,210,556
Estimated Government contributions	2,210,556
	4,421,112
Present value of benefits expected to be accrued in respect for services in fiscal 1998	3,280,457
Estimated current service surplus	$ 1,140,655

Source: Department of Finance, support for the 31 March 1997 Pension Note Disclosure

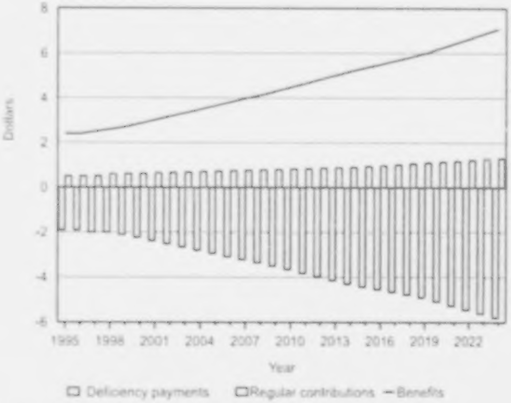
Members of the House of Assembly Pension Plan

The Members of the House of Assembly Pension Plan became effective 1 January 1976 under the *Members of the House of Assembly (Retiring Allowances) Act* and has been continued under the *Members of the House of Assembly Pensions Act*. This plan provides for pension benefits for Members of the House of Assembly. The Plan is a contributory benefit pension plan in which contributions are shared by Members and the Province. Members contribute 7% of pensionable earnings and the Province contributes an equal amount plus any additional amounts that may be prescribed.

Contributions to the Plan and related investment income are used to pay pensions to Members on retirement, disability, or death. From 1 January 1987 to 31 December 1996, annual pension payments increased from $681,000 to $2.8 million while the number of pensioners increased from 41 to 90. The actuarial valuation as at 31 December 1994, based on a 52-seat House of Assembly, indicates that this trend will continue and payments are expected to reach $7.1 million by the year 2024. The Plan is operated on a pay-as-you-go basis and as such the plan does not accumulate assets. In 1996 $1.4 million in deficiency payments was required to sustain the level of Members' pensions. These payments are expected to increase to $5.8 million in the year 2024, as illustrated in Figure 22.

Figure 22

Members of the House of Assembly Pension Plan
Actuary Cash Flow Projections
1995 to 2023
($ Millions)



Source: 31 December 1994 actuarial report

1. Management Systems and Practices

The *Members of the House of Assembly Pensions Act* provides for a retiring allowance for a person who stops being a Member of the House of Assembly after having served in two or more general assemblies for at least five years and where the Member's age plus years of service equals or exceeds 60 (55 for the Premier). In addition, a retiring allowance is paid where a Member is unable to perform his or her duties as a result of a disability that is likely to be permanent. Upon death of a Member or former Member who is eligible for a retiring allowance a reduced allowance is paid to the Members' survivors. Figure 23 shows these pension payments by type of pension for the years ended 31 December.

Figure 23

Members of the House of Assembly Pension Plan
Pension Payments by Type
Years Ended 31 December
($ 000's)

Year	Normal	Early	Survivor	Uncoded	Total
1987	$ 41	$ 500	$ 82	$ 58	$ 681
1988	42	616	87	70	815
1989	43	1,157	106	41	1,347
1990	44	1,399	124	27	1,594
1991	44	1,452	130	28	1,654
1992	16	1,587	165	12	1,780
1993	16	1,847	175	0	2,038
1994	16	1,947	180	0	2,143
1995	16	2,041	185	0	2,242
1996	184	2,388	205	0	2,777

Source: Department of Finance, Pensions Division Payroll Database.

2. Financial and Other Information

The Members of the House of Assembly Pension Plan is operated on a pay-as-you-go basis and as such the fund does not accumulate assets. In the past 10 years the Province has had to make deficiency payments totalling $11.1 million as disclosed in Figure 24.

Every three years the Province engages the services of an actuary to determine the funded status of the Plan and the contribution requirements until the next scheduled actuarial valuation of the Plan. The actuary uses this information as a basis to estimate the unfunded liability for the Province's financial statements and has put the unfunded liability of the plan at $39.1 million as at 31 March 1997. The actuary expects this liability will increase to $107.4 million in 2023. Furthermore, an actuarial review of current service costs disclosed that current member contributions are insufficient to cover the estimated cost of the members' pensions as disclosed in Figure 25.

Figure 24

Members of the House of Assembly Pension Plan
Fund Transactions
Years Ended 31 December

Year	Contributions		Deficiency Payments	Pensions	Refunds	Expenses	Balance
	Government	Member					
1987	$ 227,500	$ 227,500	$ 246,000	$ 681,000	$ 4,000	$ 16,000	$ 0
1988	237,000	237,000	361,000	818,000	0	17,000	0
1989	249,000	249,000	951,000	1,342,000	87,000	20,000	0
1990	425,000	425,000	778,000	1,594,000	8,000	26,000	0
1991	253,000	252,000	1,236,000	1,654,000	80,000	7,000	0
1992	340,000	341,000	1,120,000	1,780,000	1,000	20,000	0
1993	265,000	266,000	1,637,000	2,038,000	122,000	8,000	0
1994	245,000	245,000	1,661,000	2,143,000	0	8,000	0
1995	268,000	268,000	1,731,000	2,242,000	5,000	20,000	0
1996	707,000	727,000	1,414,000	2,777,000	64,000	7,000	0
Total	$ 3,216,500	$ 3,237,500	$11,135,000	$17,069,000	$ 371,000	$ 149,000	$ 0

Source: Audited financial statements of the Province of Newfoundland Pooled Pension Fund.

Figure 25

Members of the House of Assembly Pension Plan
Estimated Current Service Cost
Year Ending 31 March 1998

Description	Amount
Estimated member contributions	$ 272,135
Estimated Government contributions	272,135
	544,270
Present value of benefits expected to be accrued in respect for services in 1998	1,281,831
Estimated current service deficiency	$ (737,561)

Source: Department of Finance, support for the 31 March 1997 Pension Note Disclosure

Department's Response

Disability Pensions

In the case of the Public Service Pension Plan (PSPP) and the Teachers' Pension Plan (TPP), your auditors sampled 71 cases of which 5 indicated that the permanency requirements did not appear to be adequately met. These employees were granted disability pensions in the 1970's and 1980's when greater reliance was placed on the medical opinions of the applicants' attending physicians. In 1994, the Pensions Division, in consultation with the Department of Health, modified its disability assessment policy for disability pensions. An outside consulting firm, Atlantic Offshore Medical Services Limited, has been retained to adjudicate all disability applications by having appropriate independent medical staff review employees' medical files and seek additional medical opinions where required. Since the retention of this service, each case has been examined thoroughly and many applicants have been denied eligibility where the criteria have not been met. Further, the number of disability pensions awarded has decreased significantly from 145 in 1995 to 106 in 1996 and 72 up to the end of November 1997. This can be partially attributed to the fact that the medical review process for medical disability has become more stringent.

Re-employment of Pensioners

As your Report indicates, Government policy dictates that government departments and agencies give hiring preference to persons not in receipt of a government pension, with exceptions to be granted only by Cabinet. From the perspective of the Department of Finance, this is an employment issue and the administration of the policy is the responsibility of each employer. The Pension Administration Division does prepare regular reports, based on information maintained in the Pensions database. These reports identify all employees who are currently participating in one plan and receiving a benefit from another plan. Our records show that there are 13 such employees, most of whom were rehired prior to the implementation of the policy. However, these reports do not identify part time employees, substitute teacher employment, certain contractual employees or casual workers as they are not members of these Government plans.

Your Report which compared the civil service payroll and the teacher's payroll with the pensioner's database revealed that 149 pensioners received additional remuneration from Government. Your Report included pensioners who had received any type of remuneration from Government payrolls during 1996. It is questionable if the re-employment policy could be applied to many of these cases. Many teachers received amounts ranging from $25 to $400 for supervising public exams while other teachers were paid for substitute teaching, as provided for in their collective agreement. Your Report also included payments of severance, EI rebates and other amounts paid to Public Service pensioners relating to their employment prior to retirement.

There were also 14 USPP pensioners who were rehired under the PSPP. They were hired, however, prior to the implementation of the current policy, January 1993 and are considered excluded from the policy.

Financial and Other Information

Your report summarizes the current assets and liabilities of the five pension plans, including the Teachers Ancillary Pension Plan (TAPP).

Teachers' Pension Plan (TPP) *There is legislation currently before the House of Assembly to amend the Teachers' Pensions Act to allow the TAPP to borrow from the Teachers' Pension Plan to cover any deficiencies in meeting the TAPP pensioner payroll. This was agreed to between Government and the Newfoundland and Labrador Teachers' Association during the last round of negotiations and this amendment will ratify the actions negotiated under the Collective Agreement. While the current practice of allowing the provisions of the Collective Agreement was not in keeping with the provisions of the Teachers' Pensions Act, it was felt that this was a better option than suspending the pensions of TAPP pensioners until the Act was amended.*

Government is also considering its options with respect to improving the financial state of the Teachers' Pension Plan. All changes must be negotiated with the Newfoundland and Labrador Teachers' Association as the Teachers' Collective Agreement stipulates that teachers must consent to any changes to the Plan. As you are aware, Government and the Executive of the NLTA successfully negotiated a financial support program for the Plan in the Spring of 1997, but unfortunately, a vote on the package was withdrawn by the NLTA because of severe teacher resistance. Recently, teachers directed the NLTA not to negotiate to let Government deal with the problem. Given the situation, Government is reviewing its options.

Public Service Pension Plan (PSPP) *As indicated in your report, Government has taken steps to improve the financial state of the PSPP. Through a combination of special payments and contribution increases the life of the PSPP Fund has been extended to beyond 2030.*

Uniformed Services Pension Plan (USPP) *Although the USPP still requires deficiency payments to meet the costs of benefits, the member's contributions, since 1990, are more than meeting the current service cost of the benefits.*

Members of the House of Assembly Pension Plan (MHAPP) *The MHAPP is currently being reviewed as part of Government's general review of all of its plans.*

Supplementary Statistical Information

Figure 26 presents additional statistical information extending from our review of the Department of Finance Pensions Division Payroll Database.

Figure 26

Province of Newfoundland Pooled Pension Fund
Selected Statistics
31 December 1996

Description	Exgratia Pensions	Public Service Pension Plan	Teachers' Pension Plan	Teachers' Ancillary Pension Plan	Uniformed Services Pension Plan	Members of the House of Assembly Pension Plan
Normal Retirements						
Number of pensioners	20	975	1,534		213	6
Largest annual pension	$ 40,085	$ 60,926	$ 49,643		$ 44,323	$ 82,163
Smallest annual pension	$ 32	$ 142	$ 1,599		$ 6,039	$ 16,037
Average annual pension	$ 5,558	$ 8,205	$ 20,353		$ 21,645	$ 51,249
Oldest pensioner	89 years	94 years	95 years		97 years	65 years
Youngest pensioner	68 years	55 years	48 years		44 years	46 years
Average pensioner's age	78 years	76 years	68 years		60 years	56 years
Oldest age when pensioned	73 years	75 years	72 years		65 years	60 years
Youngest age when pensioned	55 years	41 years	30 years		41 years	46 years
Average age when pensioned	63 years	64 years	57 years		48 years	53 years
Early Retirements						
Number of pensioners	15	3,845	510	861	161	64
Largest annual pension	$ 44,234	$ 106,070	$ 54,847	$ 55,625	$ 50,355	$ 86,731
Smallest annual pension	$ 593	$ 214	$ 2,829	$ 11,323	$ 6,755	$ 3,075
Average annual pension	$ 12,642	$ 15,127	$ 29,593	$ 31,138	$ 28,541	$ 38,560
Oldest pensioner	85 years	96 years	83 years	62 years	94 years	86 years
Youngest pensioner	47 years	45 years	49 years	46 years	45 years	46 years
Average pensioner's age	63 years	65 years	57 years	52 years	57 years	62 years
Oldest age when pensioned	65 years	80 years	60 years	54 years	77 years	70 years
Youngest age when pensioned	26 years	21 years	47 years	46 years	42 years	40 years
Average age when pensioned	52 years	59 years	53 years	50 years	49 years	53 years

Figure 26 (Continued)

Province of Newfoundland Pooled Pension Fund
Selected Statistics
31 December 1996

Description	Exgratia Pensions	Public Service Pension Plan	Teachers' Pension Plan	Teachers' Ancillary Pension Plan	Uniformed Services Pension Plan	Members of the House of Assembly Pension Plan
Survivor Pensions						
Number of pensioners	97	1,509	247		71	15
Largest annual pension	$ 24,553	$ 31,643	$ 30,642		$ 23,547	$ 38,672
Smallest annual pension	$ 540	$ 417	$ 3,071		$ 2,919	$ 4,732
Average annual pension	$ 5,241	$ 5,307	$ 9,173		$ 8,487	$ 14,073
Oldest pensioner	98 years	99 years	98 years		95 years	93 years
Youngest pensioner	44 years	12 years	12 years		11 years	51 years
Average pensioner's age	79 years	70 years	65 years		66 years	76 years
Oldest age when pensioned	88 years	83 years	88 years		90 years	68 years
Youngest age when pensioned	28 years	7 years	10 years		10 years	43 years
Average age when pensioned	50 years	55 years	51 years		49 years	60 years
Disability Retirements						
Number of pensioners	2	1,333	393		33	
Largest annual pension	$ 9,430	$ 46,642	$ 43,007		$ 34,674	
Smallest annual pension	$ 3,336	$ 1,178	$ 4,063		$ 7,544	
Average annual pension	$ 6,383	$ 8,337	$ 18,473		$ 17,054	
Oldest pensioner	73 years	91 years	90 years		87 years	
Youngest pensioner	72 years	33 years	38 years		41 years	
Average pensioner's age	73 years	62 years	57 years		57 years	
Oldest age when pensioned	58 years	73 years	60 years		59 years	
Youngest age when pensioned	57 years	29 years	29 years		36 years	
Average age when pensioned	58 years	53 years	48 years		46 years	

Figure 26 (Continued)

Province of Newfoundland Pooled Pension Fund
Selected Statistics
31 December 1996

Description	Exgratia Pensions	Public Service Pension Plan	Teachers' Pension Plan	Teachers' Ancillary Pension Plan	Uniformed Services Pension Plan	Members of the House of Assembly Pension Plan
Redundancy Retirements						
Number of pensioners	236	301			2	
Largest annual pension	$ 53,744	$ 50,455			$ 39,762	
Smallest annual pension	$ 3,899	$ 2,767			$ 39,199	
Average annual pension	$ 13,793	$ 14,665			$ 39,480	
Oldest pensioner	69 years	88 years			62 years	
Youngest pensioner	37 years	35 years			53 years	
Average pensioner's age	50 years	58 years			58 years	
Oldest age when pensioned	63 years	64 years			56 years	
Youngest age when pensioned	31 years	26 years			44 years	
Average age when pensioned	45 years	49 years			50 years	
Exgratia Pensions						
Number of pensioners	15					
Largest annual pension	$ 16,158					
Smallest annual pension	$ 593					
Average annual pension	$ 5,615					
Oldest pensioner	92 years					
Youngest pensioner	46 years					
Average pensioner's age	77 years					
Oldest age when pensioned	86 years					
Youngest age when pensioned	38 years					
Average age when pensioned	61 years					

Figure 26 (Continued)

Province of Newfoundland Pooled Pension Fund
Selected Statistics
31 December 1996

Description	Exgratia Pensions	Public Service Pension Plan	Teachers' Pension Plan	Teachers' Ancillary Pension Plan	Uniformed Services Pension Plan	Members of the House of Assembly Pension Plan
HARTT Retirements						
Number of pensioners	68	9				
Largest annual pension	$ 45,300	$ 28,529				
Smallest annual pension	$ 8,875	$ 10,407				
Average annual pension	$ 20,261	$ 19,638				
Oldest pensioner	57 years	65 years				
Youngest pensioner	44 years	45 years				
Average pensioner's age	49 years	56 years				
Oldest age when pensioned	51 years	57 years				
Youngest age when pensioned	42 years	40 years				
Average age when pensioned	46 years	49 years				
All Pension Types						
Number of pensioners	453	7,972	2,684	861	480	85
Largest annual pension	$ 53,744	$ 106,070	$ 54,847	$ 55,625	$ 50,355	$ 86,731
Smallest annual pension	$ 32	$ 142	$ 1,599	$ 11,323	$ 2,919	$ 3,075
Average annual pension	$ 12,228	$ 11,274	$ 20,804	$ 31,138	$ 21,770	$ 35,135
Oldest pensioner	98 years	99 years	98 years	62 years	97 years	93 years
Youngest pensioner	37 years	12 years	12 years	46 years	11 years	46 years
Average pensioner's age	59 years	67 years	64 years	52 years	60 years	64 years
Oldest age when pensioned	88 years	83 years	88 years	54 years	90 years	70 years
Youngest age when pensioned	26 years	7 years	10 years	46 years	10 years	40 years
Average age when pensioned	48 years	57 years	54 years	50 years	48 years	55 years

Source: Department of Finance, Pensions Division Payroll Database

3.11 Newfoundland Liquor Corporation

Introduction

The Newfoundland Liquor Corporation is an agent of the Crown incorporated under the *Liquor Corporation Act* of 1973. It is charged with overseeing the import, manufacture, possession, and sale of all alcoholic beverages within the Province. It is governed by a board of directors appointed by the Lieutenant-Governor in Council.

Figure 1 summarizes the Corporation's revenues and expenditures for the past six years. Each year the Corporation remits contributions from its net income to the Province. As Figure 1 indicates, over the past six years these have ranged from $73.3 million to $81.5 million with $81.2 million budgeted for the fiscal year ended 31 March 1998. The Corporation's sales volumes by store are shown in Figure 7 on page 97. Outlined in Figure 2 is the Province's per capita consumption of alcoholic beverages.

Figure 1

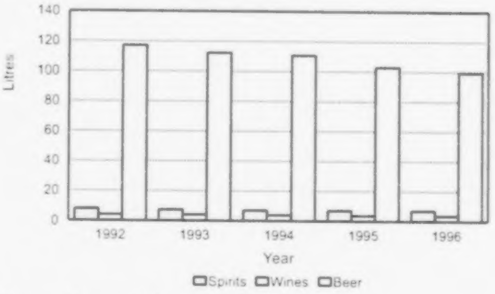
Newfoundland Liquor Corporation
Summary Income Statement
Years Ended 31 March
($ Millions)

	1992	1993	1994	1995	1996	1997
Sales	$91.6	$90.2	$88.4	$90.3	$91.2	$90.5
Cost of Sales	38.0	38.5	37.1	37.9	38.4	38.1
Gross Profit	53.6	51.7	51.3	52.4	52.8	52.4
Beer Commissions	40.8	40.7	40.4	38.3	37.9	37.3
Other Income	1.2	3.6	3.1	3.8	3.7	2.9
Operating Expenses	15.7	17.2	16.3	16.6	16.9	16.5
Net Income for Distribution	$79.9	$78.8	$78.5	$77.9	$77.5	$76.1
Payments to Province	80.5	78.5	73.3	77.5	81.5	74.8

Source: Corporation's audited financial statements

Figure 2

Newfoundland and Labrador
Per Capita Consumption of Alcohol
Years Ended 31 March



Source: Corporation's annual reports

In 1992 the Newfoundland Liquor Licensing Board, charged with the issuing and enforcing of liquor licences, was merged with the Liquor Corporation. With this merger, however, each entity's board of directors was retained to manage the two different aspects of the Corporation's operations. Effective 1 January 1997 the boards were merged into one new board. Effective 1 April 1995 the licensing branch was made part of the new Government Service Centre, leaving only the enforcement division of the old Liquor Licensing Board as part of the Liquor Corporation.

Scope and Objectives

We completed our review of the Corporation in November 1997. The objective of this review was to assess the management practices of the Corporation along with its compliance with applicable legislation. In addition, the role and functions of the boards of directors were examined, as well as any other matters which came to our attention during the course of our examination.

Information was obtained from discussions with the Corporation's management and staff, as well as reviewing internal documents such as invoices and supporting documentation, various administrative manuals, correspondence and minutes of Board meetings.

Conclusions

From this review the following observations and conclusions were made:

- The Corporation's management practices are lacking in some areas. In particular, strategic and operational plans have not been developed and no marketing plan exists for the promotion of its products. The Corporation's budgeting process does not reflect the potential savings from the privatization of retail stores. In addition, human resource policies and managerial position descriptions have not been updated to reflect changes in the Corporation, and performance evaluations are not being performed on all employees.

- Since March 1992 the Corporation has privatized 13 retail stores, converting them into agency stores. They have also approved four agency stores in communities where there were no retail stores. The Corporation has predefined criteria to be used in selecting which retail stores should be converted to agency stores.

  The Corporation also has predefined criteria to be used in selecting the successful applicant for an agency store. However, our review identified areas where the selection process could be improved. For example, the assessment of the criteria by the Corporation is subjective in that the evaluations of the proposals received are not quantified. A point system would enable the Corporation to better demonstrate how the successful applicant was selected.

  In addition, the process to select the successful applicant for an agency store could be improved if the Corporation developed written procedures to outline the documentation required in the applicants' evaluation files.

- The Corporation did not always comply with the *Public Tender Act*. The Corporation's policy for purchases less than $1,500 is in contravention of the Act since the policy does not require that quotes from three suppliers be obtained for these purchases. We also identified instances where the lease of store space was not in accordance with the provisions of the Act.

- Deficiencies were noted in certain areas of expenditure. Policies and procedures do not exist for the hiring of external consultants, resulting in some consultants being used for many years without evaluation and requests for proposals.

  The Corporation does not have documented travel guidelines to ensure consistency in the preparation and approval of travel claims. Also, vehicle use and expenses are not being properly monitored.

- The roles and responsibilities of the Board and its various committees are not defined and member profiles are not developed outlining the criteria to ensure the appointment of members with the required expertise. In addition, vacant Board positions have not been filled on a timely basis.

Findings and Recommendations

Management Practices

Our review of management practices focused primarily on planning, organization, human resources and reporting and disclosed the following weaknesses:

1. Planning

Planning is one of the most fundamental and important tasks of a Corporation's management and Board. Strategic and operational plans include strategic objectives related to a mission statement, major operational objectives, which are tied into the budget and performance indicators which can be used to measure actual progress against these goals. Our review of the Corporation's planning process disclosed the following:

- The Corporation does not have a strategic plan.
- The Corporation uses its budget as the guideline to monitor its operations. A corporation's budget, however, is only one element of an operational plan. Performance measurements and objectives which are aligned with a strategic plan should also be included in an operational plan.
- For the year ended 31 March 1996, the Corporation incurred marketing and promotion expenses of approximately $392,000. We were informed that the Corporation does not have a detailed marketing plan for the promotion of its products. Such a plan should be aligned with the objectives and goals of the strategic and operational plans.

Recommendation

The Corporation should:

- *Develop and approve a strategic plan document which relates to a vision statement. This document would include all aspects of the Corporation's operations and development.*
- *Ensure operational plans are in place for each major aspect of the Corporation and that performance indicators are established, responsibilities are assigned and time frames are set. These plans should be approved by the Board at the beginning of each fiscal year.*
- *Develop a marketing plan which is aligned with the objectives and goals of the strategic and operational plans.*

Corporation's Response

As with most branches of government, a clearly identified strategic plan did not exist at the Corporation during the years of the audit period - April 1, 1991 to March 31, 1996. However, the Corporation has regularly adhered to general business practices with the overriding objective of enhancing revenues to government within a context of social responsibility.

NLC approach to this matter is currently under review with respect to your recommendations and the subsequent discussions with AG staff.

With respect to the third item under this heading, we offer the following:

Prior to April 1, 1995, before the signing of interprovincial trade agreements forced a change, the prices of NLC products were lower than those of competing products. With a competitive price advantage no longer driving the market performance of NLC products, the Corporation redefined its marketing approach to direct funds to identified sales opportunities.

To ensure that the redefined marketing approach was effective and consistent with the competitive environment, in June 1995 the NLC contracted Deloitte & Touche to request marketing proposals for promotion of NLC products on an ongoing agency representative basis.

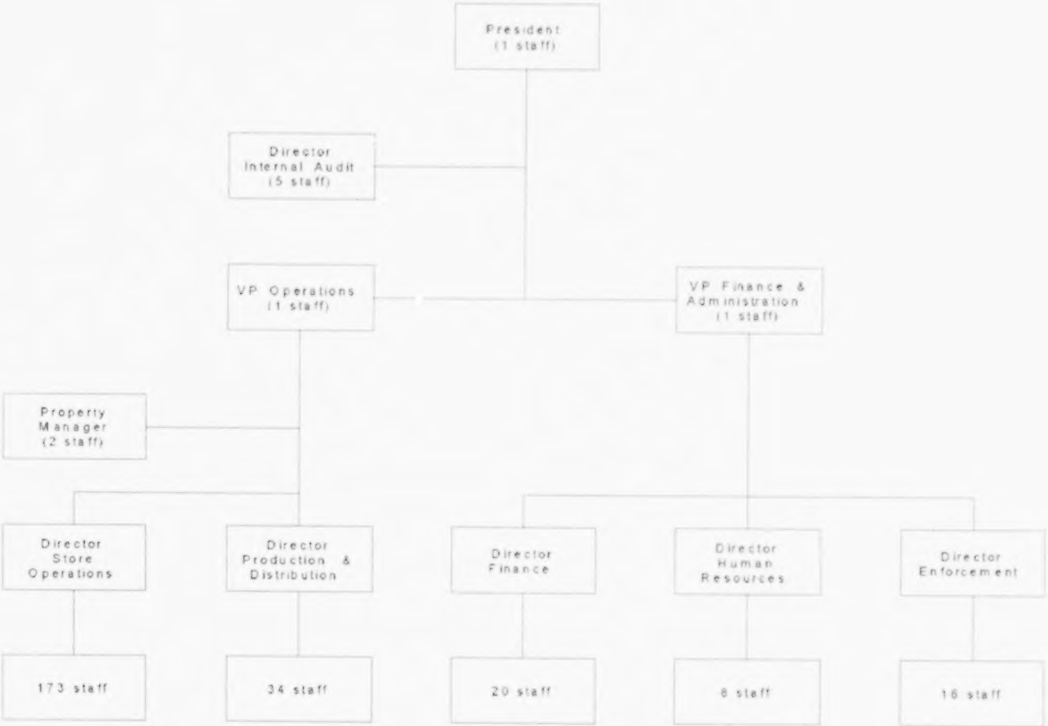
As a result of the evaluation of the proposals received, Charles R. Bell Limited was appointed for the period December 4, 1995 to March 31, 1999. The "Marketing Action Plan" submitted on June 12, 1995 by Charles R. Bell Limited in support of its application for appointment as sales agent for the NLC outlined its strategy of hiring a full-time sales representative, detailed a focus on retail stores, licensee outlets, and special events, and defined the reporting *relationship with the Corporation. The contract with the NLC formally signed with Charles R. Bell Limited identified commission rates and sales targets and committed the NLC to provide merchandising support; the NLC's subsequent expenditures on local products reflect this agreed upon marketing action plan.*

2. Organization

An effective organization is characterized in part by a clear definition of roles, responsibilities and reporting relationships, and by the allocation of work into manageable units. Figure 3 shows the Corporation's organization structure as at 31 March 1996.

Figure 3

**Newfoundland Liquor Corporation
Organization Chart
31 March 1996**


President (1 staff)
Director Internal Audit (5 staff)
VP Operations (1 staff)
VP Finance & Administration (1 staff)
Property Manager (2 staff)
Director Store Operations
Director Production & Distribution
Director Finance
Director Human Resources
Director Enforcement
173 staff
34 staff
20 staff
8 staff
16 staff

Source: Corporation's staff

Our review of the Corporation's organization structure, and policies and procedures disclosed the following weaknesses:

- Many of the Corporation's policy and procedures manuals have not been kept up to date while others are not yet complete. For example the Store Procedures Manual has not been updated since September 1993 and does not reflect changes such as the acceptance of major credit cards for payment, and the Financial Accounting Policies and Procedures Manual has no section relating to cash management.
- Many of the position descriptions for management personnel have not been updated to reflect changes in duties and Organizational changes. We reviewed the position descriptions of 20 management personnel and noted that 13 of these descriptions have not been updated since 1985. For example, the position description for the Vice-President of Operations does not reflect the actual management staff reporting to the position. In addition, the position description for the Director of Enforcement was not current.
- Our review of the organization chart disclosed that this structure has not been approved by the Board.

Recommendation

The Corporation should:

- *Ensure that all policy and procedures manuals are updated to reflect the current operations of the Corporation.*
- *Update managerial position descriptions to properly reflect changes in the organization structure and responsibilities.*

Corporation's Response

The most recent change in Corporation and Board structure occurred at the end of 1996, outside the audit period. Prior to this, changes to the organizational structure have been approved by the Board as a matter of course; however, our records do not indicate when a complete organizational chart was presented to the Board of Directors during the audit period. All position descriptions are being updated as are procedures manuals.

3. Budgeting

In November 1995, the Corporation was requested by Government to reduce its 1996-97 controllable expenditures by 9.3%, or $1.4 million. In 1995 the Corporation privatized four agency stores with controllable costs totalling approximately $325,000. As a result, we would expect total 1996-97 expenditure reductions to be $1.725 million ($1.4 million + $325,000). The approved 1996-97 budget, however, only reflected expenditure reductions of $1.4 million. The expected expenditure reductions of $325,000 from the privatizing of four retail stores was not considered in the budget submission.

The Corporation's actual total controllable expenditures for 1996-97 were $1.779 million lower than its 1995-96 budgeted amounts, and as a result, the Corporation did achieve its required expenditure reductions. However, by not removing the controllable costs associated with the four retail stores, the base on which to calculate future budgets is inflated by $325,000.

Recommendation

The Corporation should properly reflect the expenditure savings from the privatizing of retail stores in its budget.

Corporation's Response

Normal NLC practice is to use actual data to develop future budgets; it has never used current or past budgets as a base. This approach provides a *logical path for cost increases or decreases to be reflected in future budgets.*

NLC did not depart from its normal budgeting practices for 1996-97. Both sides of the actual data equation, increases and decreases, were considered with the net difference being the requirement for compliance with government's directive of a 9.3% budget reduction. Both the A.G. and NLC agree that the Corporation met its compliance requirement.

The $325,000 cost saving from store closures was reflected in the 1996-97 budget and will be reflected in all future budgets.

4. Human Resources

As at 31 March 1996 the Corporation employed 207 full-time, 36 part-time and 67 temporary staff at a cost of $9.3 million. The Corporation has a human resources department which oversees all staff-related issues such as the hiring, development and compensation of employees. We reviewed three job competition files and found they had sufficient documentation to support the choice of successful applicant. However, our review of the human resource function did disclose the following:

- several of the Corporation's human resource policy manuals, some of which were last revised in the 1970's, need to be updated;
- no formal employee evaluations are performed on any of the Corporation's employees, other than the non-management staff of the stores and recently hired or temporary employees; and
- performance objectives are not set for most employees.

Recommendations

The Corporation should ensure all human resource manuals and position descriptions are kept current.

Periodic, formal evaluations should be performed on all employees. These evaluations should include the establishment of performance objectives together with an evaluation of whether or not they have been met. Such evaluations should identify employee training requirements and be signed by the employee indicating their agreement with the evaluation.

Corporation's Response

A majority of NLC employees - store operations and internal audit - do undergo formal evaluations and have been for a number of years. Other employees have not been subject to regular performance evaluation. This matter is being addressed in conjunction with the formal evaluation system for government as part of the Hay Classification and Pay System. As well, all human resource policy manuals are being brought current.

5. Reporting

An important component of an accountability process is the reporting on the utilization of resources in meeting established objectives and goals. Effective management reporting should address such things as the Corporation's goals and objectives and the progress in meeting these objectives, comparison of actual to projected outcomes, and the utilization of resources. The following observations were made during our review of this area.

- Section 27 of the *Liquor Corporation Act* requires the Board to prepare and submit to the Minister of Finance, not later than 30 September in each year, the financial statements of the Corporation together with an Annual Report. The section further states that these items shall be laid before the House of Assembly within 15 days after they are submitted to the Minister, if the House is then sitting, and if not, then within 15 days after the beginning of the next session.

The Corporation's 1994, 1995 and 1996 Annual Reports were not tabled in the Legislature within the time frame stipulated in the Act. As a result, the provisions of section 27 of the Act were not met.

- One of the main methods used for measuring and reporting on the allocation of financial resources is the annual preparation of audited financial statements. The Corporation's financial statements do not include information reflecting a comparison of actual revenues and expenditures to those budgeted. Such a comparison would enhance the usefulness of the financial statements in presenting the accountability information to Government and the House of Assembly.

- We were informed that explanations provided to the Board of Directors for variances between budgeted and actual revenues and expenses are provided verbally only and are not formally documented. The documentation of the variance analysis would help highlight any concerns.

Recommendations

The Corporation's Annual Report should be tabled in the House of Assembly within the required time periods.

The Corporation should consider presenting a comparison of actual revenues and expenditures with those budgeted, in its financial statements.

Explanations for budget variances should be documented.

Corporation's Response

NLC acknowledges that there have been occasions when the final printed version of the annual report has been presented outside the timeframe established by the Act. The Corporation is endeavouring to take steps to ensure compliance.

The Corporation has monthly financial statements which compare actual revenues and expenditures to budget and gives variances by account. The recommendation regarding inclusion of the budget figures in the annual report and documentation of variances for the Board will be taken under advisement.

Agency Stores

1. Background

As at June 1997 the Corporation operated 23 retail stores and 72 agency stores. Figure 4 summarizes the number of stores over the past six years. Between October 1985 and December 1996, 15 retail stores had been converted to agency stores. In June 1997, the Minister of Finance announced that three more stores were to be converted to agency stores thereby bringing the number of converted stores to 18.

Agency stores are established through the privatizing of a retail store or the start up of a new agency store in an area due to formal requests or market demand. Figure 8 on page 99 summarizes the sales for each of the agency stores. Corporation's management informed us that the concept of privatizing retail stores began in the late 1970's. In 1985, the Wabush store became the first outlet to be converted to an agency store and operated privately.

Between 1986 and 1990, several proposals were developed for the privatization of low volume stores with the final proposal being submitted to Cabinet and approved in October 1990. The October 1990 plan included the general guideline that low volume stores, identified as stores with $1 million in sales or less, would be slated for conversion. This conversion strategy was expected to result in only 12 to 15 retail stores in the major centres with the remaining outlets in the Province being agency stores.

The timing of the conversions would be dependent upon such factors as when the store lease expired and the collective agreements with the Corporation's employees. The documented criteria for selecting stores for conversion is not part of the Corporation's policies and procedures manual.

Figure 4

Newfoundland Liquor Corporation
Number of Stores
31 March

	1992	1993	1994	1995	1996	1997
Retail Stores	36	32	32	31	27	23
Agency Stores	56	62	62	63	69	72
Total	92	94	94	94	96	95

2. Agency Selection Process

Once the decision is made to privatize a retail store or open a new agency store, ads requesting bids are placed in local newspapers. The municipal government for the area is notified along with the Royal Canadian Mounted Police (RCMP). After the application deadline (usually 30 days), the Corporation interviews the applicants. Based upon the outcome of the interview process, the Corporation's Internal Audit Division performs a financial review on the applicant and the RCMP is contacted for references.

Once the information on the applicants is obtained, the regional managers will review the applicants and prepare a report for the Director of Store Operations which recommends the successful applicant and ranks the others. This report is reviewed by the Vice-President of Operations, the Corporation's Board of Directors and the final approval is given by the Minister of Finance. Upon approval, the municipal government and RCMP are advised as to the name of the successful applicant and the new store usually begins operations within two to four weeks after being approved.

We selected a sample of agency competition files to assess their compliance with the Corporation's stated criteria for selecting the successful agency store applicant. These criteria are not part of the Corporation's policies and procedures manual, and when asked to provide them, management had some difficulty in locating these criteria. In general, the Corporation complied with its stated criteria for selecting the successful applicant. However, there were several areas identified during our review of this process which the Corporation should consider. For example:

- The criteria require a thorough analysis of the economic impact on other businesses in the community. While the economic impact was considered in the evaluation, the analysis could not be considered thorough.
- The criteria require that each applicant provide three character references. However, the character references are not always contacted by the Corporation.
- The assessment of the criteria by the Corporation is subjective in that the evaluations of the proposals received are not quantified. A point system would enable the Corporation to better demonstrate how the successful applicant was selected.

Our review of the processing of applicants indicated some minor inconsistencies. This process could be improved if the Corporation developed written procedures to outline the documentation required in the candidates' evaluation files.

The first agency contract is normally for a period of five years. Six months before an agreement expires, the Regional Manager for the area is requested to provide a recommendation as to whether to renew the agent's agreement.

Management informed us that most of the agents are renewed since any significant concerns with the agent would be addressed within the term of the agreement and if deemed necessary, cause the termination of the agreement before its expiration.

3. Monitoring of Agency Stores

The Corporation's monitoring of agency stores includes procedures performed by the Internal Audit Division to determine adherence to the agency agreement and applicable legislation. A review checklist is used with any discrepancies being addressed with the agent in conjunction with the Regional Manager for the area. In addition to this review by Internal Audit, the Regional Managers inspect the stores two to three times a year.

The Corporation's monitoring procedures do not include a detailed follow up of the actual cost savings achieved through the privatization to ensure that the expected cost reductions resulting from the conversion of a retail store to an agency store are achieved. In the absence of such an analysis, we performed our own analysis on four stores. While we found that the net return to the Corporation had increased, we could not determine if the outcome had met the expectations of privatizing these stores since no expectations had been established. Figure 5 shows the total contribution margins for retail and agency stores for the years 1993 through 1997.

Recommendations

The Corporation should revisit its applicant selection process to ensure it complies with its stated criteria. This examination should also consider how applicant evaluations could be quantified.

The Corporation should perform a follow-up review on the privatized stores to ensure that expected results are met.

Figure 5

Newfoundland Liquor Corporation
Retail and Agency Contributions
Years Ended 31 March

	1993	1994	1995	1996	1997
Retail					
Sales	$ 61,579,146	$ 58,853,877	$ 59,814,977	$ 59,045,528	$ 51,379,507
Cost of Goods Sold	(25,788,584)	(24,367,563)	(24,935,477)	(24,585,969)	(21,471,605)
Direct Store Costs	(8,674,583)	(8,426,190)	(8,473,734)	(8,391,925)	(7,941,471)
Contribution Margin	$27,115,979	$26,060,124	$26,405,766	$26,067,634	$21,966,431
Contribution Margin %	44.0%	44.3%	44.1%	44.1%	42.8%
Agency					
Sales	$ 25,676,037	$ 26,704,925	$ 27,963,560	$ 29,537,131	$ 30,745,848
Cost of Goods Sold	(10,752,806)	(11,056,773)	(11,657,360)	(12,298,967)	(12,848,755)
Commission/Other Costs	(2,238,065)	(2,282,626)	(2,373,961)	(2,511,981)	(2,526,508)
Contribution Margin	$12,685,166	$13,365,526	$13,932,239	$14,726,183	$15,370,585
Contribution Margin %	49.4%	50.0%	49.8%	49.9%	50.0%

Source: Corporation's internal profit/loss reports and summary of agency purchases

Corporation's Response

The criteria used for selecting the successful applicant during an agency store competition have formed a major part of the Corporation's documented agency store policy since 1973 and are familiar to all relevant Corporation management. While the analysis of applications for agency stores is not quantified, the assessments are done on a consistent and objective business basis. The report confirms that the Corporation in general complied with its stated criteria in evaluating proposals and the Corporation will ensure that this compliance is continued in future.

Public Tender Act

The *Public Tender Act* requires that a public tender be called for purchases costing $7,500 or more. For purchases less than $7,500 the Act requires that quotes be obtained from at least three suppliers or that a "fair and reasonable price" be established. We reviewed the Corporation's compliance with the *Public Tender Act* and identified the following:

1. Purchases Greater Than $7,500

Of nine purchases examined, three were found to be in compliance while six were not in compliance as follows:

(a) In 1991 the Corporation leased space for a new store at an annual cost of $104,535. Before going to tender, the Corporation had reviewed possible locations and had decided that one particular location best met its space and market requirements. The Corporation therefore advertised a tender which detailed conditions that only this particular location would match. Consequently, the only bid received was for that location.

Although nothing in the *Public Tender Act* prohibits such practice, it is not within the spirit of the Act. Our review noted that sales actually decreased in the new store location.

(b) In October 1992 a lease, with an annual cost of $18,750, was tendered. We were informed by the Corporation's staff that the tender was not awarded to the preferred bidder as the location was deemed unsuitable. The Act requires that the Minister of Works, Services and Transportation be notified of the tender award in such cases and that the exceptions be tabled in the House of Assembly. The Corporation did not comply with this provision. In addition, there was no attendance record kept of the tender opening, which is in contravention of the *Public Tender Regulations*.

(c) The *Public Tender Act* contains provision for the renewal of a lease. In these instances, the Act requires that the Corporation receive the approval of the Lieutenant-Governor in Council and that the Minister of Works, Services and Transportation be notified. We examined four lease renewals with annual payments of $28,500, $34,102, $57,911 and $29,850 which the Corporation renewed in 1993, 1994 and (two in) 1995. The Corporation did not obtain the approval of the Lieutenant-Governor in Council, nor was the Minister of Works, Services and Transportation informed as required by the Act. As a result the Corporation was in contravention of the Act.

2. Purchases Less Than $7,500

Of the five purchases we examined, only one was found to be in compliance with the Act. Each of the four purchases not in compliance was less than $1,500 and was made without obtaining at least three quotes or establishing a fair and reasonable price as required under the Act. We noted that the Corporation's purchasing policies and procedures only require that three quotes be obtained for purchases between $1,500 and $7,500. The lower threshold of $1,500 is not in compliance with the Act and does not always ensure that a fair and reasonable price was obtained as required under the Act.

The Corporation's policy with regards to service contracts indicates that an equipment supplier would normally be awarded the service contract for that equipment, even if the service contract was not part of the original tender award. This does not comply with the Act, which requires that such purchases be made following a call for tenders or quotes, depending on the estimated cost of the purchase.

Recommendation

The Corporation should comply with the provisions of the Public Tender Act.

Corporation's Response

1. *Purchases greater than $7,500: NLC acknowledges in general the points raised in (a), (b) and (c). Steps have been taken to ensure compliance with the act. With regard to (a), the following comments are offered:*

   In 1990 extensive discussion and negotiations took place with the developers of Terrace on the Square to explore the possibility of the NLC locating a store in that shopping facility. The Terrace on the Square complex was targeted to take advantage of the demographics of the regional customer area served by Churchill Square - middle to high income earners drawn from residences, government buildings, educational facilities, and a major teaching hospital. Relocating from the Corporation's then existing store in Churchill Square repositioned the store to appeal to an upscale market and addressed the problem of the NLC's inability to arrange a long-term lease with St. John's Housing.

   Since negotiations with Terrace on the Square had not been concluded and because more than one option within the development had been looked at, the Public Tender call ensured that all standard NLC property requirements were covered by the final proposal and that the developer would be inclined to make its best offer to the NLC.

   The subsequent sales performance at the liquor store satisfied these market objectives, with sales of standard products transferred to the NLC's major outlet further east on Elizabeth Avenue and the creation of upscale purchase patterns at Churchill Square, which led to the growth of the wine category to the point where it is proportionately more important than in any other outlet in the system, other than the Murray Premises.

2. *Purchases less than $7,500: Internal purchasing policy and procedures will be revised to ensure that fair and reasonable prices are obtained under provisions of the Public Tender Act.*

Other Expenditures

1. Hiring of Consultants

Treasury Board has developed guidelines for Government departments to follow for the hiring of consultants. While the Corporation is not bound by these guidelines, it does not have its own formalized policies or procedures for the hiring of consultants. This has led to instances where the hiring of consultants occurred without a call for proposals, the preparation of terms of reference or the signing of a contract. Similarly, some consultants have been retained for many years without an evaluation being done on their performance. Our review of payments to consultants indicated the following:

- A local engineering firm has been used by the Corporation ever since it was first selected in the early 1980's. Management was not aware of how this firm was chosen. In 1996, the Corporation paid $71,642 to this firm.

- Design and artwork for the annual report, costing $5,300 in 1996, has been performed by the same firm for the past 10 years. No proposals have been obtained from other suppliers over this time period. We also noted that no estimate of price is given before the work is performed each year.

Recommendation

The Corporation should establish policies and procedures for the hiring of external consultants. The Corporation may wish to consider guidelines similar to those followed by Government departments under the direction of Treasury Board's Guidelines Covering the Hiring of External Consultants.

Corporation's Response

The Corporation is a relatively small user of consulting services and, with the exception of the engineering firm, the individual amounts are fairly small. There have been invited quotations for design and printing of the 1996 and 1997 annual report. Any future expenditure in this area will be done through the proper process. Government guidelines for hiring consultants will be reviewed in detail and applied where applicable.

2. Travel Guidelines

The majority of the Corporation's travel costs are incurred in the course of completing audits of the various agency and retail stores, meetings with various suppliers, and for promotional activities. Figure 6 summarizes the travel expenses incurred by the Corporation for three years.

Figure 6

Newfoundland Liquor Corporation
Travel Expenses
Years Ended 31 March

Year	Travel Expenses
1994	$178,458
1995	206,322
1996	230,779
Total	$615,559

Source: Audited financial statements

Although the Corporation incurred travel expenses in those three years totalling $615,559, it does not have any documented travel policies. Management informed us that travel expenditures normally follow the same process as most other expenditures with a requisition prepared and approved by the appropriate department head followed by the issuance of a purchase order.

Our review of travel claims submitted by Corporation staff in 1995 and 1996 indicated that internal requisitions were not always prepared for the purchase of airline tickets, and in two of the claims we examined the internal requisition for the travel was approved by the employee who took the trip.

Recommendation

The Corporation should document its travel policies which would include, amongst other items, information on per diem rates and allowances along with guidelines for choosing the method of travel and time that travel is to take place.

Corporation's Response

The Corporation's travel guidelines will be thoroughly reviewed and policies documented to ensure they are adhered to in a consistent manner. We point out, however, that per diem rates and allowances are documented and all staff are aware of these.

3. Vehicle Expenses

The Corporation maintains six vehicles which are recorded in its accounts at an original cost of $118,640. In 1996, the Corporation incurred $17,296 for the operation and maintenance of these vehicles. Costs associated with the operation of the vehicles should be adequately monitored and controlled. We reviewed these expenditures and noted the following:

- Our review of vehicle repairs disclosed that the Corporation does not always obtain three quotes for repair work. The *Public Tender Act* requires that quotes from three separate suppliers be obtained for purchases costing less than $7,500.
- One vehicle is assigned to each of the three regional managers. Management informed us that, after business hours, these vehicles are normally kept at the personal residences of the three managers. The taxable benefit for the personal usage of these vehicles and the related stand-by charge is not reported by the Corporation on the employees' T4: Statement of Remuneration Paid which is submitted to Revenue Canada.
- Management informed us that detailed mileage logs are not maintained for two of the Corporation's six vehicles. In addition, no review of mileage logs is performed. As a result, it is difficult to assess whether these vehicles are always being used for their intended purpose.
- Only the total expenses associated with each vehicle are monitored. The Corporation does not track individual vehicle costs such as oil and gas, repairs and maintenance, and insurance. This information should be analysed on a regular basis to determine the level of usage, correlation between vehicle usage and operating costs, and anticipated replacement date.
- We were informed that there is no documented policy regarding the personal use of company vehicles.

Recommendations

The Corporation should ensure that the provisions of the Public Tender Act *are followed in connection with its vehicle operating and maintenance costs.*

Detailed mileage logs for all vehicles should be maintained and reviewed, including comparison against the mileage reading on the vehicles.

Individual vehicle costs should be monitored to ensure that there is a correlation between vehicle usage and operating costs.

The Corporation should document its policy on the personal use of company vehicles.

Corporation's Response

Recommendations will be considered for a more consistent approach to documentation of the use of vehicles and a clear policy regarding personal use is being documented.

Board Governance

Boards of Crown agencies have an obligation to perform their responsibilities and account to Government for their performance. A board should have a clear understanding of its role, possess and maintain adequate qualifications and expertise, and provide adequate direction to and monitor the management of the corporation.

A board should function at the highest level of an organization, setting the overall corporate direction and considering only major decisions. A board has the authority to appoint committees and establish a mandate to undertake a particular function.

Our review of the Board's operations indicated the following:

1. Defining the Role of the Board and its Committees

The Corporation's Board of Directors and Board Committees do not have formal documented terms of reference other than the exercise of powers described in its enabling legislation. Therefore, the Corporation's Board does not always approve significant administrative and operational policies. For example, the Board did not approve the Corporation's organizational structure, or its travel rates.

2. Board Member Profile

A board should be comprised of people who understand and accept the responsibilities of the position and agree to help make the board function effectively. Board members should bring a blend of judgement, skills, specialized knowledge, creativity, commitment and experience appropriate to the needs of the entity.

During our review we were informed that there were no formal policies in place for the appointment or removal of Board members. In addition, there are no selection criteria established for appointments to the Board. Such criteria would help ensure that any new members possess an appropriate level of background and experience for the position. We were also informed that there is no orientation session provided to new Board members.

3. Vacant Board Positions

The *Liquor Corporation Act* specifies that the Board shall consist of seven members. During the 1991 fiscal year four members resigned from the Board and were replaced with two new members thereby leaving the Board with two vacancies as at 31 March 1991. One vacancy was filled in April 1995 while the other was not filled until November 1995. The Board should have a full membership so that there will be a diversity of opinions when making decisions.

Between February 1993 and March 1996, the Board operated without a permanent chairman (and Corporation president). When the former chairman stepped down in February 1993, an acting chairman was not appointed until five months later, and a permanent chairman was not appointed until March 1996, three years after the resignation of the former chairman.

Recommendations

Terms of reference should be established for the Board and all its committees.

A Board member profile should be developed outlining the criteria Board members should meet. Such criteria would include experience, professional expertise and leadership capabilities.

Vacant Board positions should be filled on a timely basis.

Corporation's Response

Since January 1, 1997, a new Board of Directors has been appointed for the Corporation. It replaces the previous corporate and licensing boards and consolidates all the functions under one. The new board, consisting of seven members representing various regions of the province, meets on a regular 6 - 7 week basis and approves all policy matters. Board governance, in our opinion, comes under the auspices of the Provincial Government, not NLC.

Supplementary Sales Information

Figures 7 and 8 provide additional information regarding retail store sales and agency store sales for the years ended 31 March 1994 through 1997.

Figure 7

Retail Store Sales
Years Ended 31 March

	1994	1995	1996	1997
Elizabeth Avenue	$ 10,002,662	$ 9,969,349	$ 9,887,338	$ 9,864,329
Murray Premises	1,630,271	1,864,589	2,016,266	2,159,189
Kenmount Road	3,684,457	3,634,791	3,437,746	3,410,032
Corner Brook Plaza	2,964,683	2,957,400	1,966,504	2,005,709
Port Aux Basques	1,770,673	1,680,867	1,661,259	1,567,940
Water Street West	1,167,890	1,235,345	1,103,070	1,144,503
Stephenville	2,775,578	2,735,090	2,718,151	2,666,847
Bell Island	435,929	419,664	411,155	343,703
Gander	4,280,027	4,376,239	4,495,746	3,200,742
Grand Falls	3,508,862	4,091,138	5,366,673	5,482,253
Labrador City	1,903,105	1,975,520	1,966,040	1,938,038
Harbour Grace	3,175,822	3,217,565	3,241,776	3,304,147
Churchill Square	2,146,063	2,192,212	2,166,797	2,228,191
Deer Lake	1,639,316	1,620,818	1,712,325	2,208,339
Clarenville	2,769,699	3,168,793	3,764,325	5,876,483
Lewisporte	1,782,444	1,864,958	1,867,621	1,630,961
Baie Verte	664,731	660,540	553,754	0
Marystown	1,321,060	1,456,681	1,743,571	1,966,071
Licensee Store	8,422,111	7,750,101	7,292,266	2,405,805
Millbrook Mall	4,214,105	4,246,267	5,124,164	5,166,345
Mt. Pearl	4,625,301	5,136,717	5,184,511	5,015,640
Placentia	1,368,956	1,792,100	2,006,068	1,967,518
Happy Valley	1,980,899	1,964,567	2,135,213	2,143,530

Figure 7 (cont'd)

Retail Store Sales
Years Ended 31 March

	1994	1995	1996	1997
Grand Bank	331,817	334,729	379,245	141,852
Buchans	141,241	149,755	141,905	51,758
Flower's Cove	2,184,763	2,062,634	2,023,028	1,907,044
Catalina	660,847	664,050	441,310	0
Bonavista	496,059	508,910	362,832	0
Topsail Road	9,355,289	9,624,780	10,067,211	9,142,396
Harbour Breton	895,655	643,025	0	0
Springdale	713,331	700,322	149,802	0
Bay Roberts	2,545,156	2,726,146	2,767,304	2,708,978
Avalon/Village Mall	0	326,553	427,683	421,456
Wine Show	0	26,322	0	55,556
Total Branch Sales	85,558,802	87,778,537	88,582,659	82,125,355
Sundry Sales*	2,876,841	2,549,774	2,611,531	8,357,476
Grand Total	$88,435,643	$90,328,311	$91,194,190	$90,482,831

Source: Corporation's internal profit/loss reports

* Sundry sales consist primarily of sales to other liquor jurisdictions across Canada. Sales for 1997 include those formerly made through the licensee store.

Figure 8

Agency Store Sales
Years Ended 31 March

	1994	1995	1996	1997
New Agency Stores				
Bay Bulls	$ 877,648	$ 912,300	$ 856,821	$ 826,344
Ferryland	340,900	362,142	368,275	372,599
Goulds	1,144,855	1,219,403	1,216,931	1,140,803
Green's Harbour	425,103	461,096	444,532	450,270
Heart's Content	461,543	453,682	471,145	473,980
Kelligrews	2,017,640	1,823,991	2,037,004	2,185,099
Manuels	1,791,659	1,892,963	2,140,811	2,120,829
Old Perlican	481,564	457,252	428,645	431,909
Salmonier	411,057	393,429	379,972	373,393
St. Mary's	289,841	299,511	311,739	294,398
Paradise/St. Thomas	658,574	846,527	841,360	840,097
Torbay	1,622,299	1,644,925	1,617,677	1,590,347
Trepassey	354,879	353,253	328,391	305,528
Western Bay	475,314	459,886	426,608	409,495
Whitbourne	651,770	700,394	840,126	859,261
Arnold's Cove	443,641	606,012	672,043	602,060
Badger	271,141	282,910	269,963	267,601
Bay L'Argent	94,002	155,566	183,063	168,449
Bishop's Falls	596,347	634,732	569,750	574,554
Eastport	288,334	322,450	357,504	311,154
English Harbour West	65,550	100,503	127,041	109,349
Fogo	389,723	427,803	432,509	418,398
Gambo	385,080	400,226	398,886	417,903
Gander Bay South	256,692	282,501	245,679	222,703
Hermitage	155,731	174,801	156,602	169,307
Lethbridge	507,258	534,344	526,930	502,059
Musgrave Harbour	0	0	84,990	130,544
Port Rexton	271,141	296,795	287,150	293,774
Robert's Arm	217,141	219,181	238,269	222,907

Figure 8 (cont'd)

Agency Store Sales
Years Ended 31 March

	1994	1995	1996	1997
New Agency Stores (cont'd)				
St. Albans	453,685	515,730	527,264	532,139
Terrenceville	66,471	74,071	59,602	56,515
Twillingate	636,274	651,131	648,940	657,661
Wesleyville	434,709	428,895	463,505	456,035
Burgeo	299,255	298,428	280,203	328,942
Churchill Falls	183,721	229,596	213,315	223,895
Cow Head	139,070	133,877	151,264	169,133
Daniel's Harbour	74,030	75,014	66,306	56,740
Doyles	390,723	351,961	332,434	341,300
Hampden	83,264	84,806	79,476	74,827
Jackson's Arm	81,374	79,379	66,467	53,298
Jeffreys	238,314	208,285	210,599	207,931
Lanse Au Loup	142,873	145,757	137,842	141,478
Lark Harbour	148,799	187,763	179,667	179,671
La Scie	174,123	176,162	187,957	169,243
Main Brook	0	0	36,154	60,478
Marche's Point	80,886	97,024	79,750	44,594
Mary's Harbour Lab.	312,096	301,500	288,874	246,682
McIver's	180,801	176,016	175,233	166,275
Pasadena	886,086	919,776	919,190	892,835
Piccadily	155,563	133,562	121,969	120,170
Plum Point	238,672	243,867	235,419	223,421
Port Saunders	347,743	337,088	320,323	322,725
Ramea	110,713	102,535	90,586	117,706
Rocky Harbour	328,271	336,807	335,236	321,594
Roddickton	385,821	339,136	328,410	283,512
Rose Blanche	178,507	164,848	159,292	163,702
Stephenville Crossing	610,811	594,207	572,720	523,936
Woody Point	183,855	170,691	150,860	150,022
Total New Agency Stores	**23,492,900**	**24,276,490**	**24,679,273**	**24,371,574**

Figure 8 (cont'd)

Agency Store Sales
Years Ended 31 March

Converted Retail Stores	1994	1995	1996	1997
Wabush	812,248	821,633	801,173	730,103
St. Lawrence	134,174	133,358	143,946	146,042
St. Anthony	802,662	774,983	718,596	689,725
Glovertown	413,836	413,225	392,980	396,531
Holyrood	545,591	880,342	896,565	834,947
Botwood	503,514	515,417	505,139	468,228
Harbour Breton	0	148,112	327,308	339,239
Springdale	0	0	471,458	491,590
Baie Verte	0	0	222,139	495,443
Bonavista	0	0	228,079	613,336
Catalina	0	0	150,475	302,649
Buchans	0	0	0	112,432
Grand Bank	0	0	0	250,487
Bell Island	0	0	0	182,642
Lewisporte	0	0	0	320,880
Total Converted Retail Stores	**3,212,025**	**3,687,070**	**4,857,858**	**6,374,274**
Total Agency Sales	**$26,704,925**	**$27,963,560**	**$29,537,131**	**$30,745,848**

Department of Works, Services and Transportation

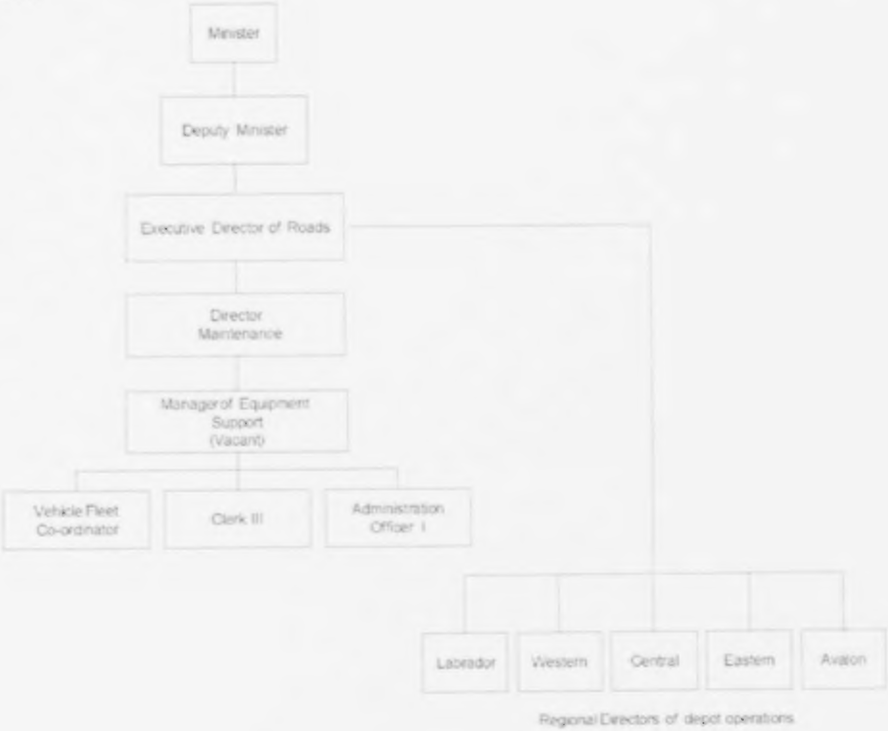
3.12 Vehicle Fleet Management

Introduction

Minute of Council 1272-79 assigned the Department of Works, Services and Transportation with the responsibility for the efficient and effective management of Government's fleet of light vehicles including cars, station wagons, 4-wheel drives, vans and small trucks. A Fleet Management Branch was created within the Department's Maintenance Division to develop and implement policies and procedures to facilitate the management of these vehicles. The Branch is also responsible for providing support and direction to all government departments in ensuring the effective implementation of, and compliance with, these policies and procedures. Each department has a designated Fleet Management Contact person to act as a liaison with the Fleet Management Branch. In addition, the Department operates a network of 50 vehicle repair facilities (depots) and refuelling sites located throughout the Province. Figure 1 provides information on the organizational structure of the Fleet Management Branch.

Figure 1

Fleet Management Branch
Organizational Structure
31 March 1997


Minister
Deputy Minister
Executive Director of Roads
Director
Maintenance
Manager of Equipment
Support
(Vacant)
Vehicle Fleet
Co-ordinator
Clerk III
Administration
Officer I
Labrador
Western
Central
Eastern
Avalon
Regional Directors of depot operations

Source: Department of Works, Services and Transportation

As shown in Figure 2, Government had 869 light vehicles in operation as at 20 February 1997. These vehicles had a total acquisition cost of approximately $15 million. In addition to these 869 vehicles, the fleet inventory, at the end of February 1997, also included 94 vehicles which were being held for disposition.

Figure 2

Government-Owned Light Vehicle Inventory 20 February 1997

Department	Vehicle Type				
	Sedan	Van	Pickup	4x4	Total
Works, Services and Transportation	39	39	193	11	282
Forest Resources and Agrifoods	17	8	191	56	272
Justice	87	16	1	20	124
Government Services and Lands	34	13	20	4	71
Environment and Labour	15	1	7	8	31
Tourism, Culture and Recreation	4	7	9	9	29
Mines and Energy	-	-	5	13	18
Development and Rural Renewal	10	-	-	3	13
Fisheries and Aquaculture	3	-	7	1	11
Finance	4	-	4	-	8
Municipal and Provincial Affairs	1	1	-	4	6
Executive Council	2	-	-	-	2
Education	1	-	-	-	1
Industry, Trade and Technology	-	-	-	1	1
Total	217	85	437	130	869

Source: Equipment Management System, Department of Works, Services and Transportation

As shown in Figure 3, for the 11 months ended 20 February 1997, government-owned vehicles travelled in excess of 24 million kilometres with operating and maintenance costs of $3,953,121. This information was obtained from the Department's Equipment Management System and cannot be reconciled to the Province's Financial Management Information System which is used to record Government's expenditures and revenues.

Figure 3

Government-Owned Light Vehicles Operating and Maintenance Costs 11 Months Ended 20 February 1997

Vehicle Type	# of Vehicles	Total km Driven	Operating Costs (2)	Maintenance Costs (3)	Total Cost	Cost per km
Sedan	331	5,476,067	$295,148	$855,664	$1,150,812	$0.21
Van	121	1,981,103	138,995	205,177	344,172	0.17
Pickup	597	13,267,767	624,340	1,063,773	1,688,113	0.14
4 x 4	172	3,290,058	254,428	315,596	570,024	0.17
Total	(1)1,221	24,018,845	$1,312,911	$2,440,210	$3,953,121	$0.16

Source: Equipment Management System, Department of Works, Services and Transportation

(1) This figure includes 869 vehicles in operation (refer to Figure 2) and 352 vehicles which were either disposed of during the year or were being held for disposition.
(2) Includes fuel and oil.
(3) Includes parts and labour.

Government vehicles parked at Confederation Building

Figure 4 indicates that, for this same period, Government also rented 117 vehicles for the equivalent of 307 months at approximate rental, maintenance and operating costs of $601,000. These costs were obtained from the various departments and from the Equipment Management System. However, it was not possible to identify all costs relating to rental vehicles. For example, operating costs are not available for the vehicles rented by the departments of Fisheries, and Aquaculture, Justice, and Executive Council, nor are operating costs available which were reimbursed on travel claims or acquired through direct purchase order. Without this information, it is not possible to determine whether it is more cost effective for Government to rent or purchase vehicles.

Figure 4

Rental of Light Vehicles (Greater Than 30 Days) Rental, Maintenance and Operating Costs 11 Months Ended February 1997

Department	Quantity Rented	# Mos. Rented	# kms	Total Costs	Cost per km
Forest Resources and Agrifoods	46	91.3	NOT AVAILABLE	$217,500	NOT AVAILABLE
Works, Services and Transportation	42	177.0		267,466	
Tourism, Culture and Recreation	24	18.3		98,840	
Fisheries, Food and Aquaculture	2	5.3		4,029	
Justice	2	11.3		10,218	
Executive Council	1	4.0		2,928	
Total	117	307.2		$600,981	

Source: Fleet Management Branch and Equipment Management System, Department of Works, Services and Transportation

For the year ended 31 March 1997, total costs associated with managing Government's light vehicles, excluding the operation of repair facilities, insurance, and other transportation costs was approximately $7.7 million as shown in Figure 5. For the same period, as shown in Figure 5, approximately $15.0 million was incurred for the operation of repair facilities (excluding capital) and $667,000 was incurred for insurance. These amounts, however, are for maintaining both heavy and light vehicles and equipment, and information on the cost allocation between heavy and light vehicles and equipment could not be provided. In addition, $12.1 million was spent on other transportation methods. This includes, not only taxis, personal mileage and short-term rentals, but also airfares, hotels and meals. There is no information available on costs specific to taxis, personal mileage and short-term rentals.

Figure 5

Fleet Management and Other Transportation Costs Year Ended 31 March 1997

Type of Expenditure	Cost
Light Vehicle Acquisitions for all Departments	$ 2,100,000
Operating and Maintenance - Government-Owned Light Vehicles (11 months ended February 1997)	3,953,121
Rental, Operating and Maintenance Costs - Rented Vehicles (>30 days)	600,981
Car Allowances	1,059,486
Sub-total	**$7,713,588**
Insurance (covers both heavy and light vehicles and equipment - no breakdown available)	$667,044
Operation of Repair Facilities (covers both heavy and light vehicles and equipment - breakdown not available)	$14,976,913
Other transportation - taxis, personal mileage reimbursement, car rentals, airfares, hotels, meals	$12,066,124

Source: Equipment Management System and the Financial Management Information System

Scope and Objectives

We completed our review of fleet management for light vehicles in May 1997. Our review focused on the Fleet Management Branch and the departments of Works, Services and Transportation, Forest Resources and Agrifoods, Justice, Government Services and Lands, and Tourism, Culture and Recreation. As shown in Figure 2, these five departments operate approximately 90% of Government's light vehicles.

The objective of the review was to assess the adequacy of systems and processes used in the planning of the transportation needs of Government and in the acquisition, operation, maintenance, replacement and disposition of Government's light vehicles.

Conclusions

Transportation Planning

In 1991, Government directed a reduction in the number of its light vehicles from 1,077 to 908 by 29 March 1991, with an objective of further reductions to a fleet in the vicinity of 600 vehicles. In February 1997, there were 869 government-owned light vehicles. While the size of the fleet has been decreasing, Government could not justify its present complement of light vehicles.

Vehicle Acquisition

Government purchased 116 light vehicles in 1996-97. Departments do not provide adequate documentation to justify the need for the new vehicle acquired. In addition, there was no evidence that these vehicles were the most economical vehicles available to meet the transportation needs of Government.

Cost information needed to assess alternatives to purchasing vehicles is not available. Such alternatives include leasing, use of car allowances, use of taxis, and reimbursement for personal vehicle usage.

Vehicle Operations

A computerized information system is used to facilitate the management of Government's light vehicles. A review of this system indicated that the information produced is not timely, complete, accurate or understandable.

Most users of the reports produced by the computerized information system indicate they did not review or analyse the information provided. As a result, the cost of maintaining Government's light vehicles and the extent of their usage is not being adequately monitored.

At the end of February 1997 there were 869 passenger vehicles with an original acquisition cost of $15.0 million. For the eleven months ended February 1997, information recorded in the computer system indicated that these vehicles travelled in excess of 24 million kilometres at approximate operating and maintenance costs of $4 million; however, our review indicated that not all costs are included in this system.

In addition, the Department operates 50 repair facilities to service Government's heavy and light vehicles and equipment. For the year ended 31 March 1997, the cost of operating these repair facilities (excluding capital costs and insurance) was $15.0 million. However, the portion of these costs relating to the light vehicles is not known. Without complete information, Government does not know the total cost of operating its light vehicles.

Fleet Management policy requires that vehicles driven less than 10,000 kilometres per year must be reviewed to ensure that continued use of the vehicle is justified; however, there are no reports produced for this purpose. We identified 244 vehicles in February 1997 which were driven less than 10,000 kilometres in the preceding year and for which continued operation had not been justified.

Fuel pumps at the Department's largest refuelling site in St. John's are computerized and are accessed with individual keys encoded with the vehicle and department number. At the time of our review, there were 869 light vehicles and 1,448 keys had been issued. The Department could not provide us with a listing indicating which department or which vehicles were assigned each of these keys.

Credit cards are also available to purchase fuel for Government's light vehicles. As of February 1997, there were 819 active credit cards. However, our review of a sample of 12 vehicles which had been disposed of in 1996-97 identified 4 credit cards which were still active even though the vehicles had been sold for several months. As a result of the inadequacies of the Department's Computer System to capture information by transaction date, we could not determine whether charges were made to the inactive cards.

Vehicle Maintenance

There are often considerable delays in carrying out recommended preventative maintenance work which may result in increased repair and maintenance costs in the future.

Vehicle Replacement

Of the 869 vehicles in operation as of February 1997, 412 were older than six years. There is no formal vehicle replacement policy and information on the deferred costs associated with maintaining vehicles beyond their economic lives is not known.

Vehicle Disposition

There is no system to ensure vehicles are promptly disposed of. In addition, the information system used to manage Government's vehicle fleet is not always promptly updated for dispositions, which reduces the usefulness of the various information reports prepared from the system.

Findings and Recommendations

Transportation Planning

The transportation needs of Government employees change with changes to Government programs and services. In 1990, the provincial Government conducted a review of its vehicle utilization histories and functions to assess whether the number of light vehicles was consistent with the transportation needs of the departments. The result of this review was Minute of Council 0204-91 which directed a reduction in the fleet from 1077 light vehicles in December 1990 to 908 light vehicles by 29 March 1991, with an objective of further reductions to a fleet in the vicinity of 600 vehicles. Since that time, Government has gone through a process of program restructuring and significant downsizing. However, as shown in Figure 2, at the end of February 1997, there were still 869 government-owned light vehicles in operation. In addition, as indicated in Figure 4, departments rented 117 vehicles throughout the year for a total of 307 months.

Vehicle Fleet Management policies, approved by Treasury Board, assign the Fleet Management Branch with the responsibility of providing recommendations to Treasury Board regarding optimal size of departmental fleets. These policies also assign the departments with the responsibility of justifying vehicle needs to the Fleet Management Branch prior to vehicle acquisitions. Our review, however, indicated that the Fleet Management Branch has not conducted any reviews to justify and define Government's transportation needs in relation to program or service goals and departments only attempt to justify the need for an individual vehicle when funding becomes available to replace an existing vehicle. For individual vehicle purchases, the departments do not demonstrate that a vehicle is needed for a particular position, that the transportation need can not be met by the department's existing fleet complement, or that alternatives to acquisition such as leasing, public transport and the use of private vehicles are considered. As a result, Government has not justified its present complement of light vehicles.

Recommendation

The transportation needs of the departments should be reviewed to determine the number and type of light vehicles required by Government.

Vehicle Acquisition

1. Justification for Acquisition

For the three years ended 31 March 1997, almost all vehicle purchases made by departments were replacement vehicles. To acquire a replacement, departments forward a request to the Fleet Management Branch. The vehicle being replaced is then inspected by one of the Department's depots where a condition report is prepared detailing an assessment of the vehicle's physical condition. Fleet Management officials indicate that as long as the department has available funds, the vehicle was driven in excess of 20,000 kilometres in the most recent year of operation and the condition report indicates that major repairs would be required for an extended period of continued operation, the Branch will approve the acquisition of a replacement vehicle.

Our review of documentation on the acquisition of replacement vehicles indicated that normally only a condition report is attached and there is no documentation on the 20,000 kilometre requirement. There was also no documentation to demonstrate that the requested type of vehicle was needed for a particular position, that the transportation need could not be met by the department's existing fleet complement, or that alternatives to acquisition were considered. Such alternatives include leasing, public transport and the use of private vehicles. Our review also indicated that, of a sample of 10, 2 of the 10 replaced vehicles examined were driven less than 20,000 kilometres in the most recent year of operation and no other justification was provided. As a result, departments are not adequately justifying their vehicle needs prior to acquisition.

Recommendation

The Department of Works, Services and Transportation should ensure that departments provide adequate documentation to justify vehicle acquisitions, including demonstrating that the type of vehicle requested is needed for a particular position(s), that the transportation need can not be met by the department's existing fleet complement, and that alternatives to acquisition are considered.

2. Vehicle Type

The Fleet Management Branch is responsible for preparing vehicle specifications to be used in the acquisition of vehicles. On an annual basis, Fleet Management, in conjunction with the various vehicle manufacturers' representatives, review existing specifications for light vehicles. These specifications can be categorized in four major types - sedans, vans, pickups and 4x4's. Within these categories there are variations on the specifications available based on the size of the vehicle. There are, however, some of the more economical models including four-cylinder pickups and vans, and two door cars, which are not included in Government's specifications. Fleet Management indicated that these more economical models are not suitable for Government's general transportation needs.

Traditionally, departments acquired the larger eight-cylinder vehicles; however, in recent years departments have been acquiring more six and even four-cylinder vehicles. For the year ended 31 March 1997, the departments purchased 12 four-cylinder, 84 six-cylinder, and 20 eight-cylinder vehicles. While departments are often acquiring smaller vehicles, there is usually no information available to support the decisions for acquiring various vehicle types such as a six-cylinder sedan as opposed to a four-cylinder sedan or why a pickup is acquired as opposed to a sedan. As a result, there is no evidence that the most economical vehicle type is matched with the identified transportation need, including the requirements of the employees' duties.

Recommendation

Departments should clearly demonstrate the need for the type of vehicle being requested in relation to the required use.

3. Alternative Methods of Meeting Identified Transportation Needs

Our review of light vehicle acquisitions indicated that alternative methods of meeting identified transportation needs are not normally considered. For some programs that have an increased demand for vehicles for certain periods of the year, such as provincial parks or forestry operations, the related department has opted for short-term leasing versus vehicle acquisition to meet this increased demand.

Alternative methods of meeting transportation needs currently utilized by the Government include leasing, public transport or taxis, car allowances and reimbursement of personal vehicle usage. While the associated costs of these alternative methods are recorded in Government's various financial information systems including the Civil Service Payroll System and the Financial Management Information System, these costs are grouped with other various types of expenditures and as a result are not readily determinable. Thus, comparative costs for these different methods of transportation are not readily available for use in managing Government's vehicle fleet.

Recommendations

The departments requesting approval for vehicle acquisitions should provide adequate documentation to demonstrate that, where appropriate, alternatives to acquisition were considered.

The Department should develop a reporting system that adequately records information on the costs of alternative methods of transportation.

Vehicle Operations

Fleet Management policy assigns the responsibility of monitoring the day-to-day operations of Government's vehicles and equipment to the Fleet Management Branch and whenever necessary, the Branch is to perform periodic audits within the various departments to ensure adherence to policy guidelines. Fleet Management policy assigns the responsibility to the department's Fleet Management contact person for ensuring departments are maintaining and operating their vehicles in accordance with policy and for providing information on vehicle usage as requested by Fleet Management.

To effectively manage Government's fleet of light vehicles, a good information system is required to provide such information as fleet size, composition, location, historical acquisition, operating and maintenance costs by vehicle and by department, and usage information for purposes of indicating those vehicles not operating within standards of usage and costs. This information must be timely, complete, accurate, and understandable. This information must also be monitored and analysed on a regular basis. Our review of this area indicated the following:

1. Management Information Systems

The Fleet Management Branch uses the "Equipment Management System" (EMS) to capture the above type of information. This system was developed almost 20 years ago to control and monitor heavy equipment operations in the Maintenance Branch of the Department of Works, Services and Transportation. When the Fleet Management Branch was created in 1979, this system was also used for purposes of controlling and monitoring light vehicles.

Once a vehicle is acquired, it is assigned a number and information on the vehicle make and model, acquisition cost, purchase date and user department is entered into the EMS by the regional depot which receives the vehicle acquisitions. Other types of information entered into this system include costs for repair and maintenance and gas and oil. These costs are also normally entered into the system by the various depots who provide the related services. Information on vehicle meter readings is also required to be forwarded by the user department to the Branch on a monthly basis for input into the EMS. Based on the information recorded in the EMS, the system generates reports on vehicle utilization, costs and gas consumption. These reports are distributed to the user departments for their review and analysis. Our review of the reports and discussion with department officials indicated the following:

- Information is not produced on a timely basis. The EMS is not an on-line system; cost and kilometre information is batched and then entered into the system. On average, reports produced by this system are only available two to three months after the period to which the information relates. This reduces the usefulness of the information and the ability to identify and correct problems on a timely basis. In addition, as a result of the lack of timeliness of this system, all departments reviewed, including the Department of Works, Services and Transportation, also maintain a separate system to record their vehicle fleet inventory and sometimes information on meter readings. Duplicate systems result in unnecessary costs and use of resources associated with maintaining a separate system.

- Information is not complete. For example, most repair and maintenance costs are completed at the depots and the related costs are entered into the EMS by the depot. Sometimes, however, a department will use an outside garage for repair and maintenance work. For these costs and for gas and oil purchased on a direct purchase order, through petty cash or reimbursed on travel claims, the department is responsible for forwarding the related invoice to the Fleet Management Branch for input into the EMS. However, discussions with Vehicle Fleet Management contacts in the departments indicated that most were not aware of this requirement and were not sending this type of information to the Fleet Management Branch.

- Information is not always accurate. A comparison of vehicle listings maintained by departments to the EMS indicated numerous instances where a vehicle was listed as assigned to a particular department in the EMS but through transfer was actually in use by another department. Instances were also noted where vehicles were actually disposed of or awaiting disposition for an extended period of time but they were still listed as operating in the EMS. As exception reports, which are produced for utilization rates, gas consumption, missing preventative maintenance checks and missing meter readings, are sent to the user department for analysis, it is essential that information is accurate and that the appropriate user department receives the information.

- Information is not always understandable. Discussions with users of the reports produced by the EMS indicate that while the exception reports on missing meter readings are understandable, the exception reports on vehicle utilization, costs, and gas consumption are very confusing and there is no direction provided on how to analyse the information. As a result, most users indicated that they did not review or analyse these reports.

Fleet Management indicated that they recognize the limitations of this system and have planned to implement a new on-line system for several years. A specification document was prepared for a new system in 1997 but to date, no further progress has been made in this area.

Recommendation

The Department should ensure that the information necessary to manage Government's vehicle fleet is available.

2. Utilization Reviews

Management policy requires that if a vehicle is driven less than 10,000 kilometres in the most recent year of operation, the user department must file with the Branch justification to support the continued need for the vehicle. The Fleet Management Branch is then required to make a recommendation to Treasury Board regarding the appropriate use of these vehicles. Our review indicated, however, that there are no reports produced which specifically identify vehicles driven less than 10,000 kilometres in the most recent year of operation and the Fleet Management Branch has no process to ensure that these exceptions are identified and analysed. A review of utilization rates for the 11 months ended 20 February 1997 indicated the following information as provided in Figure 6:

Figure 6

Vehicle Utilization Rates
Year Ended 20 February 1997

Number of Kilometres	Number of Vehicles
< 10,000	244
> 10,000 and < 20,000	201
> 20,000	518
Total	*963

Source: Equipment Management System, Department of Works, Services and Transportation

*This includes 869 vehicles in operation as at 20 February 1997 and the 94 vehicles awaiting disposition.

Although reports on vehicle utilization rates under 10,000 kilometres are not produced, the Fleet Management Branch does require departments to submit monthly meter readings on all of its vehicles and this information is then entered into the EMS for purposes of determining vehicle utilization rates. Information on costs incurred for repairs, maintenance and gas are also regularly entered into the EMS. On a quarterly basis, the Branch produces an exception report which indicates the vehicle utilization, costs and gas consumption rates that fall outside the provincial average for each particular class of vehicle by 25%.

Monthly exception reports are also produced listing the vehicles for which a meter reading has not been submitted to Fleet Management. These reports are distributed to the user departments for their review and analysis. Figure 7 provides information on exceptions for utilization, costs, gas consumption and for missing meter reports for the month of December 1996 for the departments included in our review.

Figure 7

Exception Reports on Vehicle Utilization, Costs, Gas Consumption and Missing Meter Readings December 1996

Department	# Vehicles	Utilization based on kilometre	Costs	Gas Consumption	Missing Meter Readings
Works, Services and Transportation	290	277	211	107	26
Forest Resources and Agrifoods	274	249	191	114	43
Justice	111	111	84	70	9
Government Services and Lands	71	66	51	35	25
Tourism, Culture and Recreation	28	23	19	14	5
Total	774	(94%) 726	(72%) 556	(44%) 340	(14%) 108

Source: Equipment Management System, Department of Works, Services and Transportation

As indicated in Figure 7, 94%, 72% and 44% of the utilization, costs and gas consumption rates respectively were exceptions. A review of a sample of these exceptions indicated that some were a result of incomplete information on meter readings (14% exception rate for December 1996) or incomplete costs associated with services provided outside of the depots for which information was not forwarded to the Fleet Management Branch for input into the EMS. However, our review indicated many significant exceptions that the Fleet Management Branch and the departments could not provide ready explanations for. For example:

- Thirteen vehicles operated by the Royal Newfoundland Constabulary in Corner Brook had extremely low fuel consumption rates with only 4592 litres consumed for the 9 months ending December 1996 while the vehicles had reported mileage of 319,680 kilometres. After our enquiry, it was finally determined that the fuel input forms for these vehicles were not being input into the EMS.

- A pick-up operated by the Department of Forest Resources and Agrifoods in the Whitbourne area consumed 6,739 litres of fuel for the nine months ending December 1996 while travelling 24,293 kilometres. This is a higher than average consumption rate. The vehicle operator indicated that the vehicle consumes a lot of fuel and that the vehicle credit card is used to purchase fuel for an ATV, snowmobile, outboard motor and powersaw even though the operator has a separate utility card for these items.

- A pick-up operated by the Department of Tourism, Culture and Recreation consumed 7,722 litres of fuel for 9 months ending December 1996, while travelling 33,206 kilometres for a consumption rate of 23.254 litres per 100 kilometres. Another pick-up operated by the department consumed 2,679 litres of fuel while travelling 28,948 kilometres for a consumption rate of 9.254 litres per 100 kilometres. The provincial average consumption rate for this class of vehicle was 16.616 litres per 100 kilometres. The department had no ready explanation for these exceptions.

- A half ton pick-up operated by the Department of Works, Services and Transportation in the Placentia area consumed 12,224 litres of fuel for the nine months ended December 1996 while travelling 25,614 kilometres for a consumption rate of 47.723 litres per 100 kilometres. The provincial average consumption rate for this class of vehicle was 16.616 per 100 kilometres. A departmental official explained that while this vehicle had experienced mechanical problems (broken speedometer and gas tank replaced) which may have contributed to the high consumption rate, the operator could not provide any further explanations for the consumption rate. The department was concerned with this situation and thus, in June of 1997, the lock was changed on the fuel pump and access to the key was limited. During our review, only the September 1997 quarterly exception reports were available and this did not allow enough time to pass to determine if the department's actions will result in a significantly reduced consumption rate.

Fleet Management relies on the departments to review the exception reports and inform the Branch of any significant issues. Our review at the department level, however, indicated that there were no explanations documented for these exceptions. Further discussions with department officials indicated that the majority of them do not review and analyse these exception reports.

As a result, the monitoring and control of the utilization and operating costs of Government's vehicle fleet is not adequate.

Recommendation

Utilization and costs of operating Government's vehicle fleet should be adequately monitored and controlled.

3. Refuelling Operations

There are 50 government-owned refuelling sites located throughout the Province which are used by government departments and the Royal Newfoundland Constabulary (RNC). For the year ended 31 March 1997, the departments and the RNC purchased fuel of approximately $5.8 million for use in both heavy and light vehicles and equipment. As significant volumes of fuel are consumed on an annual basis, it is important that adequate controls are established to prevent and detect unauthorized access to, and use of, fuel.

Fuel Pumps located at White Hills

Information on the amount of fuel obtained at government-owned refuelling sites is captured through a combination of computerized pumps and manual forms. The pumps located at the main regional depot at White Hills and those located at the RNC depot are computerized. The pumps at White Hills can be accessed at any time using an individual key which is encoded with the vehicle and department number. For those departments that use the pumps at White Hills but do not have a key, the pumps are accessed by depot staff using a master key and information on the user department and vehicle is then entered into the computerized pumps. The RNC pumps are accessed by a card which is also encoded with the vehicle number. On a regular basis, computerized summary reports are produced and this information is entered into the EMS. For all other areas, manual pumps are used and information on department number, vehicle number and the amount of fuel purchased is recorded on manual forms. On a regular basis, this information is also entered into the EMS.

Departments may also purchase fuel from either Irving Oil (on the Island) or Esso (in Labrador) using a credit card. If a credit card is used, this information is recorded on the gas station's computerized system. These stations then provide Government with both individual invoices and summary information in an electronic format which is then interfaced with the EMS. Fuel can also be purchased at other non-government refuelling sites by using either a direct purchase order or petty cash. For fuel purchased by these other methods, an invoice is sent to the user department which is then responsible for forwarding the information to Fleet Management for input into the EMS.

The depots are responsible for controlling access to the various pumps. Discussions with depot officials indicated that, to prevent unauthorized use of fuel, all pumps are locked when not in use and master keys to access the pumps are maintained in a secure location. The White Hills depot has the added responsibility of controlling the individual keys which access its computerized pumps. During the period of our review, to obtain an individual key to these computerized pumps, departments would make a verbal request to the White Hills depot to make the requested key. The depot informed us that at the time of our review 1448 keys had been issued; however, they could not provide us with a list of which department or which vehicle had these various keys. This does not provide adequate control over the fuel pumps at the White Hills depot.

The Fleet Management Branch is responsible for controlling the use of the gas credit cards. To obtain a credit card, a department must complete an application form which is approved by Fleet Management. Fleet Management receives the card, checks the information encoded on the card including the department name and vehicle number, and requires the department to sign for the receipt of the card. Fleet Management provided us with a report at the end of February 1997 which listed 819 active credit cards and the department and vehicle to which each card was assigned. Once a vehicle is disposed, Fleet Management is responsible for ensuring that the related credit card is cancelled and the EMS is updated to reflect the inactive status of the vehicle. If the vehicle is designated as inactive in the EMS, any invoices for the purchase of fuel charged to this vehicle will print as an exception on the rejection report produced by Fleet Management on a monthly basis. During our review of 12 vehicle dispositions, we determined that 4 of the 12 credit cards assigned to these vehicles were still active although the vehicle had been sold for several months. As a result of the inadequacies of the Department's Computer System to capture information by transaction date, we could not determine whether charges were made to the inactive cards.

The depots regularly reconcile the information on fuel purchased by departments and the RNC to the amount remaining in the tanks. Discussion with depot officials and a review of a sample of these reconciliations did not indicate any significant problems with the inventory of fuel. Furthermore, for purposes of monitoring potential unauthorized use of the credit cards or the keys to the pumps, on a quarterly basis, Fleet Management produces exception reports on gas consumption rates that fall outside the range of 25% of the provincial average. These reports are distributed to the user department for their review and analysis. However, as indicated earlier, these reports are not reviewed by the user departments.

Recommendation

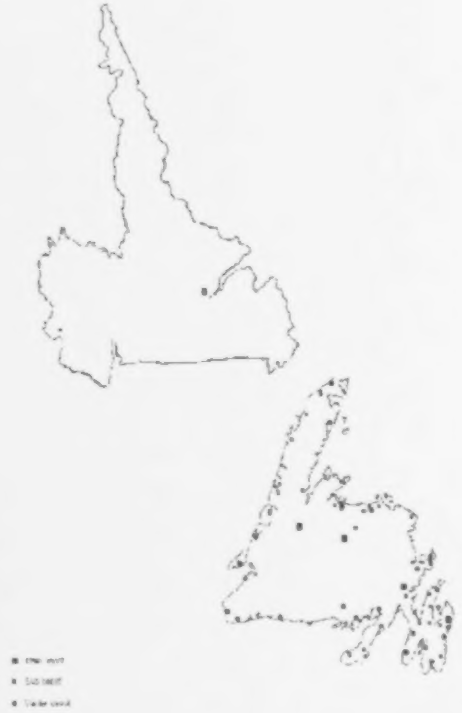
The Department should ensure controls over the access to fuel at the government-owned refuelling sites are adequate.

Vehicle Maintenance

The Department of Works, Services and Transportation operates a network of 50 vehicle and equipment repair facilities (depots) located throughout the Province as shown in Figure 8. Each of the repair facilities reports to one of the five Regional Offices.

Figure 8

Equipment Repair Facilities and Refuelling Sites
31 March 1997



Source: Department of Works, Services and Transportation

These depots or shops were originally established to service heavy equipment only; however, the depots now perform preventative maintenance and other work on light vehicles. Figure 9 provides information on the number of pumps and mechanics in each of the five regional offices.

Figure 9

Summary of Gas/Diesel Pumps and Mechanics Regional Offices

Regional Office	Gas Pumps	Diesel Pumps	Heavy Equipment Mechanics	Light Equipment Mechanics	Automotive Repairmen
White Hills	15	15	20	7	3
Clarenville	12	12	27.5	-	1
Grand Falls	11	12	26	-	1
Deer Lake	8	11	31.5	-	1
Labrador	-	-	-	-	-
Total	46	50	*105	7	6

Source: Fleet Management Branch, Department of Work, Services and Transportation

* Some Heavy Equipment Mechanics also work on light vehicles and equipment

Repair Facility located at White Hills

Figure 10 provides information on the cost of operating these depots over the last three years as recorded in the Province's Financial Management Information System; however, this information is not recorded separately between heavy and light equipment. The Department of Works, Services and Transportation absorbs all labour costs incurred in maintaining the vehicles but charges the departments for the cost of equipment parts and gas and oil.

Figure 10

Equipment Maintenance Costs (Heavy Equipment and Light Vehicles) Years Ended 31 March

	1997	1996	1995
Expenditure			
Salaries and Benefits	$6,042,836	$7,004,354	$7,677,339
Transportation and Communications	65,220	85,987	80,717
Supplies - Gasoline	1,002,131	1,090,674	986,887
- Diesel	1,693,944	1,416,432	1,773,627
- Tires	621,356	576,870	576,276
- Parts	3,057,002	3,363,535	3,920,423
- Other	1,551,275	1,647,493	1,664,711
Purchased Services	1,610,193	1,515,291	1,716,244
Equipment Purchases	3,949,580	5,348,439	5,501,809
Total Expenditures	19,593,537	22,049,075	23,898,033
Revenue			
Parts inventory/ Gas/ Oil recharged to departments	(685,507)	(764,449)	(729,632)
Sale of Equipment	(102,285)	(417,392)	(119,405)
Net Expenditure	$18,805,745	$20,867,234	$23,048,996

Source: Financial Management Information System

Figure 11 provides information on the allocation of the depot operating expenses for the year ended 31 March 1997 by Regional Office.

Figure 11

Equipment Maintenance Costs (Heavy and Light) by Regional Office Year Ended 31 March 1997

	White Hills	Clarenville	Grand Falls	Deer Lake	Labrador	Head Office	Total
Expenditure							
Salaries and Benefits	$1,387,721	$1,385,138	$1,532,616	$1,608,536	$64,792	$64,033	$6,042,836
Transportation and Communications	6,649	15,404	28,266	11,060	3,841	-	65,220
Supplies	2,183,917	1,471,454	2,149,347	2,017,639	103,351	-	7,925,708
Purchased Services	472,602	95,778	188,445	168,536	17,788	* 667,044	1,610,193
Equipment Purchases	-	-	-	-	-	3,949,580	3,949,580
Total Expenditure	4,050,889	2,967,774	3,898,674	3,805,771	189,772	4,680,657	19,593,537
Revenue							
Parts, inventory and gas recharged to departments	-	-	-	-	-	(685,507)	(685,507)
Sale of Equipment	-	-	-	-	-	(102,285)	(102,285)
Net Expenditures	$4,050,889	$2,967,774	$3,898,674	$3,805,771	$189,772	$3,892,865	$18,805,745

Source: Budget Analysis Reports, Financial Management Information System

* Represents insurance for heavy and light vehicles and equipment

To effectively manage the vehicle fleet, it is important that a regular maintenance program is established and that workshop productivity is maximized and equipment downtime is minimized. Our review of this area indicated the following:

1. Maintenance Program

The Department of Works, Services and Transportation has established a regular maintenance program with reference to the manufacturer's recommendations for servicing. However, the EMS only produces exception reports which highlights those vehicles which have not had a preventative maintenance check within one year and/or 18,000 kilometres. As shown in Figure 12, the reports produced for December 1996 listed the following exceptions for the departments we reviewed:

Figure 12

Preventative Maintenance Check Exceptions December 1996

Department	Total # of Vehicles	# Missing Preventative Maintenance Checks
Works, Services and Transportation	290	17
Forest Resources and Agrifoods	274	45
Justice	111	17
Government Services and Lands	71	8
Tourism, Culture and Recreation	28	4
Total	774	91

Source: Equipment Management System, Department of Works, Services and Transportation

These exception reports are produced on a monthly basis and are distributed to the user department. It is the responsibility of the department to ensure that vehicles are serviced in accordance with the preventative maintenance program. The depots do not receive copies of these exception reports so they are unaware of the vehicles which have missed preventative maintenance checks and, although Fleet Management produces and distributes these exception reports, it does not monitor whether the departments take appropriate action. Delays in recommended preventative maintenance work may result in increased repairs and maintenance costs in the future.

Vehicle repairs at White Hills Depot

Recommendation

Departments should ensure that vehicles are maintained in accordance with Fleet Management policies and procedures.

2. Shop Operations

When conducting repairs and maintenance work, the depot records the cost of the parts used and the labour hours on a "Shop Repair Order". This information is entered into the EMS and is coded based on the type of vehicle class and on the type of work completed (e.g. brakes, transmission). On a monthly basis, reports are produced on shop operations and distributed to the depot for its review and analysis. This report includes information on both the actual hours spent on preventative maintenance and repairs, and on the overhead hours recorded for stores and clerical support, garage supervision, and vacation, sick leave and other types of leave. This report also provides information on the related labour cost, which is calculated using an average salary rate and actual labour hours, and the cost of materials used. An annual report is also produced and distributed to the depots which includes more comprehensive information on activities by equipment and vehicle type and the related costs. These reports are used for management information purposes. A review and analysis of these reports for the four main depots for the eleven months ended February 1997 indicated the following:

- The percentage of overhead hours to total hours ranged from 51.02% to 54.65%.
- The productive hours per mechanic ranged from approximately 1600 to 1900.
- The reports do not calculate the average number of labour hours spent on each type of activity (e.g. brakes, transmission) and there are no established productivity standards for these various types of activities. As a result, the Equipment Management System does not produce adequate information to assess the productivity of operations by type of activity or whether certain activities could be more economically completed elsewhere.
- The monthly report does include a calculated productivity percentage for each depot based on total costs incurred to productive labour hours. This percentage is then compared to a standard which represents the prior year's average of the same calculation for the entire region. However, this standard is based on historical information and consequently if there are problems with productivity levels at any of the depots, the under performance of these depots will affect the average which is used to establish the standard for acceptable productivity levels.
- The EMS only captures information by depot and not by mechanic so reports on productivity by mechanic are not available. Depot supervisors indicate that they determine a mechanics productivity through observation.
- The depots do not receive information on the operations of depots in other regions which would enable them to assess their own shop performance in comparison to other shops.

As a result of the lack of independently established standards for acceptable productivity levels, the Department of Works, Services and Transportation is not adequately assessing the efficiency and effectiveness of shop operations.

Recommendation

The Department should ensure that the productivity levels at the depots are at an acceptable level.

Vehicle Replacement

Statistics provided by Fleet Management indicate that the average economic life of its light vehicles is considered to be 6 years; however, there is no formal replacement policy. Reductions in departments' budgets in recent years have resulted in departments maintaining an increasingly older vehicle fleet. As shown in Figure 13, during the 11 months ended 20 February 1997, 412 or 43% of Government's light vehicles were older than 6 years. This figure also demonstrates that operating and maintenance costs increase with the age of the vehicle.

Figure 13

Costs of Operation for Government-Owned Light Vehicles by Vehicle Age
11 Months Ended 20 February 1997

Age (yrs)	# Vehicles	Total km	Total Costs	Cost per km
< 6	551	17,510,444	$2,625,321	$.15
7 - 10	310	5,718,825	1,133,214	.20
> 10	102	571,440	141,436	.25
Total	* 963	23,800,709	$3,899,971	$.16

Source: Equipment Management System, Department of Works, Services and Transportation.

* This includes 869 vehicles in operation at 20 February 1997 and 94 vehicles awaiting disposition. It does not include maintenance and operating costs of $53,150 associated with vehicles disposed of in recent years but which are still included in the EMS database.

Fleet Management policy requires that, unless there is a significant reason to increase the number of vehicles in a department's fleet, the department requesting approval for an acquisition must identify an existing vehicle for disposition so that the overall vehicle fleet does not increase in size. It is only during this process of identifying a vehicle for disposition that replacement criteria including such factors as usage, actual vehicle condition, and consideration of historical operating and maintenance costs are considered. Thus, as only limited funding for vehicle acquisitions is available, a vehicle is only replaced as funding for an acquisition is identified from savings in the approved operating budget versus being replaced because the vehicle has met formal replacement criteria and is costing more to maintain than to replace.

In addition, Fleet Management does not know or attempt to estimate the penalties or costs associated with maintaining vehicles beyond their economic life. Information on the costs of deferring required acquisitions is necessary in order to make informed budgeting and funding decisions.

Recommendation

The costs of maintaining vehicles beyond their economic lives should be determined for purposes of establishing a formal Government-wide replacement policy.

Vehicle Disposition

For the year ended 31 March 1997, Fleet Management recorded revenue of $102,285 from the disposal of heavy and light vehicles and equipment. However, the Department could not readily provide us with a listing of vehicle dispositions. A vehicle identified for disposition is turned in by the user department to the nearest regional depot. The Fleet Management Division, in conjunction with the Government Purchasing Agency, coordinates vehicle dispositions. The vehicle is then either sold to a town council or community college, sold through public auction or tender, or transferred to another department if this other department has a vehicle that is in worse operating condition than the vehicle earmarked for disposition.

RNC Vehicle awaiting disposition

Dispositions should be made on a timely basis in order to obtain sale revenue which can then be used for operations. A review of a sample of 12 dispositions indicated that disposal times ranged from two to six and a half months. Fleet Management indicated that the timing of disposals are often delayed as it waits to accumulate several vehicles in order to conduct the one auction or tender. Our review indicated that Fleet Management does not have a formal system to monitor the timeliness of dispositions. As a result, this may result in unnecessary delays in dispositions.

Information systems should also be promptly updated to reflect any disposition. During our review, several instances were noted where a vehicle had been disposed of for numerous months but the vehicle was still listed as operating in the EMS. This reduces the usefulness of exception reports that are produced by this system for purposes of monitoring vehicle utilization, costs and gas consumption.

Recommendation

Fleet Management should monitor the timeliness of dispositions to ensure that this source of revenue is received as soon as possible. In addition, information systems should be promptly updated to reflect vehicle dispositions.

Department's Response

Transportation Planning

Minute of Council 0204-'91 had an objective of further reductions in the light vehicle fleet, however, such review was to be done by Treasury Board Secretariat not Fleet Management. Since that time, fleet size has been strictly controlled by funding restrictions and primarily on a justified replacement only basis through Treasury Board, TBM 71-92, (no new vehicle policy only replacements when conditions justifies replacing). With the recent change in policy on purchase of vehicles by Directive 97.10 from Treasury Board, the Department agrees an assessment of the present fleet is needed and have plans to start such a review in Fleet Management.

Justification for Acquisition

The Department agrees with the recommendation and has taken appropriate action to see that a new element is put into vehicle acquisition to see that user departments can support the need for a vehicle. This review will also incorporate alternative choices as well as support for only basic transportation requirements.

Vehicle Type

The Department agrees with the recommendation. In the past, the final decision mainly was to replace with similar type vehicle. Fleet Management would recommend vehicle type but the final decision was that made by the user Department as outlined in the Policy and Procedures Manual. While the Department of Works, Services & Transportation went to smaller engines in pickups, smaller sedans for various in-house users and have promoted a basic transportation policy, other user departments were reluctant to follow Fleet Management recommendations in most instances. Fleet Management is presently reviewing its policies and procedures and such changes will be included for Treasury Board scrutiny and approval. The recommendation that four cylinder pickups and vans be considered is not a good alternative to Fleet Management's normal standard of six cylinders. Four cylinder pickups were tried unsuccessfully in the fleet a number of years ago as were four cylinder intermediate cars; both had a high maintenance cost and poor performance.

Alternative Methods of Meeting Identified Transportation Needs

This type of assessment is left to the user department to undertake. Fleet Management should be only used if the user department requests current data on leasing, lease/purchase or other alternatives. The final decision as to whether these alternatives suit the needs of each user department's situation should remain under the present policy with the user Department. As the data on these alternatives is continuously changing, the Department feels that options only be reviewed as requested by the user Department. It should also be noted that every situation will be different given the wide range of job functions and travel needs. The benefits of setting up a data base with a regimented list of option costs is questionable.

Management Information Systems

Fleet Management policy assigns the responsibility of day to day operations to the user department. Only monitoring the user department to see that the Policy and Procedures Manual are followed is Fleet Management's role. In the past, one element used in the monitoring has been the EMS System. The points noted in respect to the EMS System are correct and the Department of Works, Services & Transportation has been aware of the shortcomings present in this computer system. In 1995, the system was revamped as much as could be done in the batch computer system. This was followed by an on-line proto-type development in 1997/98. It is anticipated that funding to complete the on-line program of this proto-type will be completed in 1998/99 at a cost of approximately $400,000.

Utilization Reviews

Reference to the 244 vehicles which were driven less than 10,000 km being reviewed is correct. However, it should be noted that most of these vehicles are special vehicles such as Forestry fire pickups or Labrador vehicles which historically have low usage and are known to Fleet Management. It is agreed that the monitoring and costs of operating some vehicles in the present fleet is less than *desired. This is due in part to the present batch EMS System which is outdated in many areas. It is expected that the proposed new EMS on-line system will correct most of the concerns outlined in the report.*

Refueling Operations

In respect to the fuel pump keys and the controls presently in place, the report is correct and immediate action will be taken by the Department of Works, Services & Transportation to correct this situation. The active credit card on disposed of vehicles is not as serious as presented. While it is correct that the credit card is active, it is active in theory only. The card is held in Fleet Management for a period whereby fuel purchased, while the vehicle was active, is recorded through the fuel suppliers system and then into the EMS fuel recording. The card itself is not being used to fuel any vehicles.

Maintenance Program

The Department is reviewing its maintenance procedures and a number of changes are proposed to improve service to user departments. Changes in the EMS will improve monitoring and reporting to user departments, however, the final action or decision remains in the user department.

Shop Operations

Changes in the EMS System will improve monitoring of repair shop operations as well as productivity of mechanics. By having an on-line system, data will be current, instead of two months old in the present EMS System, and corrective action will be more timely.

Vehicle Replacement

Vehicle Replacement strategy or policy is not as straight forward as the economical decision process. At present, Government has a program whereby age, mileage and present vehicle condition as assessed by a mechanical report are used. While this may not be the best available, it is comparable to others and given the variety of usage in the Government fleet, it is the preferred method. Given that the purchase of identical vehicles could have a wide range of usage from rough to very light as a fire truck, it is doubtful that an economic life based replacement program would be better than that presently in place. It is agreed that, in the past, this system has been budget controlled in the user Department. The system could and should be used early in the budget process. The final decision, at time of approving purchase, should be mainly developed using a true mechanical condition report. Other elements, such as costs associated with maintenance after economic life and economic life can be included in the decision process only after true data is available for our conditions. To establish a formal replacement policy based only on economic life and cost of maintenance after that time is not recommended.

Vehicle Dispositions

Vehicle Disposition is done as noted in the Policies and Procedures of Fleet Management. Light Vehicles in the Avalon Region are done in a timely manner as there are auction services in place and vehicles are being sold continuously. Vehicles in other areas are not as timely due to the costs associated with having auctioneering done outside the Metro St. John's area. Fleet Management, in conjunction with G.P.A., have annual auctions in each of the main depots. This format produces a higher disposal value and lower overhead costs than many smaller auctions. The Department will , however, review the matter to see if more auctions can be cost effectively arranged in Clarenville, Grand Falls and Deer Lake depots.

3.13 Government Purchasing Agency-*Public Tender Act* Exception Reporting

Introduction

The annual expenditure of the Province, through the Consolidated Revenue Fund, is approximately $3.6 billion. Figure 1 details the categories which make up this expenditure.

Figure 1

Annual Expenditures
Consolidated Revenue Fund
31 March 1997

Category	Amount	
Grants, Allowances and Assistance	$2,156,621,000	59.5%
Debt Expenses	718,578,000	19.8%
Salaries and Employee Benefits	356,929,000	9.8%
Services and Supplies	345,282,000	9.5%
Professional Services	49,409,000	1.4%
Total	$3,626,819,000	100.0%

Much of the $2.1 billion in grants, allowances and assistance is paid to various entities such as hospitals, school boards, municipalities, Memorial University of Newfoundland and various Crown corporations. These entities then use a significant portion of the funds they receive to purchase the supplies, goods or services which they require in their operations.

Furthermore, government departments purchase supplies, goods and services which they require in their operations from the $345 million provided.

To ensure that there is a system of control over the acquisition of supplies, goods and services, and that there is consistency in purchasing practices within the public sector, the House of Assembly enacted the *Public Tender Act*.

The *Public Tender Act*

The *Public Tender Act* provides legislative direction for the calling of tenders for the acquisition of goods and services by all government funded bodies. Government funded bodies include all departments, the Government Purchasing Agency, Crown corporations and agencies of the Crown, municipalities, school boards, hospitals and Memorial University of Newfoundland. In general, the *Public Tender Act* requires that tenders be invited for the purchase of goods or services or the execution of a public work except where:

(a) the estimated cost is not more than $25,000 or in the case of leases not more than $30,000, and, in the opinion of the head of the government funded body, in view of the nature of the work it is not advisable to invite tenders;

(b) there is a pressing emergency and the delay would be injurious to the public;

(c) where the dealer, supplier or contractor is the only source;

(d) in the case of leases, the lease is an extension or renewal of an existing lease;

(e) the estimated cost is not more than $7,500;

(f) the work can be more expeditiously or economically executed by employees;

(g) where purchasing authority has been delegated from one government body to another which has invited a tender and awarded the contract in accordance with the Act;

(h) when the purchase is for resale; or

(i) where set rates have been established under the *Public Utilities Act*.

Where a tender has not been called because of either (a), (b), (c) or (d) above, the head of the government funded body must inform the Minister of Works, Services and Transportation within five days of the awarding of the contract. The Minister must table this information in the House of Assembly within thirty days indicating the reasons why a tender was not called for each of the items not tendered.

Scope and Objective

We carried out a review at the Government Purchasing Agency to determine whether all public tender exceptions were tabled in the House of Assembly as required by the *Public Tender Act*. We also reviewed the system in place at the Government Purchasing Agency to determine whether it was recording all public tender exceptions.

Conclusions

The *Public Tender Act* requires that, with few exceptions, all goods and services costing $7,500 or more which have been acquired without public tender be reported to the House of Assembly. Although all exceptions that are reported to the Government Purchasing Agency are forwarded to the Minister of Works, Services and Transportation for tabling in the House of Assembly, our audits indicate that the Government Purchasing Agency is not notified by government funded bodies of all exceptions. Therefore, the exception reports which are tabled in the House of Assembly are incomplete.

Although the Act and Regulations require government funded bodies to report their public tender exceptions to the Minister of Works, Services and Transportation within five days of the awarding of the contract, our review indicated that some exceptions were not reported by the government funded body until more than two years after the awarding of the contract.

In addition, some of the reports which are tabled in the House of Assembly are not being tabled within the time frame specified in the Act.

Findings and Recommendations

Our review of the Public Tender Exception Reports which were tabled in the House of Assembly from April 1996 to March 1997 indicated that $36.7 million in goods and services were required to be tendered but were not for the reasons indicated in Figure 2. These exceptions were tabled in the House of Assembly.

Figure 2

Public Tender Exception Reports Tabled in the House of Assembly
Summary by Category and Sector
1996-97

Sector	Urgently Required	Tenders Not Advisable	Sole Source Supplier	Lease of Space	Total
Government Purchasing Agency	$1,448,423	$126,038	$7,555,161	$ 0	$ 9,129,622
Government Departments	251,538	61,047	9,008,395	2,762,521	12,083,501
Health Institutions	144,474	7,674	8,586,956	16,311	8,755,415
Memorial University of Newfoundland	10,695	0	5,764,684	0	5,775,379
School Boards and Colleges	86,673	0	95,901	0	182,574
Municipalities	254,402	102,079	91,574	0	448,055
Crown Corporations	11,000	22,458	246,882	0	280,340
Total	$2,207,205	$319,296	$31,349,553	$2,778,832	$36,654,886

The Government Purchasing Agency informed us that the information contained in the public tender exception reports tabled in the House of Assembly is gathered as follows:

- For purchases not processed by the Government Purchasing Agency, the various departments and government funded bodies are required under the Act and Regulations to inform the Minister of Works, Services and Transportation of the public tender exceptions within five days of awarding the contract. The Government Purchasing Agency, on behalf of the Minister, compiles these exceptions on a monthly basis, which the Minister is required to table in the House of Assembly within 30 days of receipt of the information.

  Our review of this process indicated that the Government Purchasing Agency compiles and reports the information it receives. The Agency considers each entity as an autonomous body and does not monitor or challenge the information provided. As a result, the Agency does not know whether it has been informed of all exceptions or whether the reasons provided by the government-funded body are valid and therefore cannot provide assurance that the report which is tabled in the House of Assembly is complete and accurate.

  Our audits of government funded bodies have indicated numerous instances of public tender exceptions which were not reported to the Minister and subsequently the House of Assembly as required by the *Public Tender Act*.

- For purchases which are processed by the Government Purchasing Agency, the Agency maintains a purchasing system that reports its public tender exceptions which must be reported to the House of Assembly. In addition, it requires its buyers to prepare a form for each public tender exception. This information is then compiled for inclusion in the monthly public tender exception reports which are tabled in the House of Assembly.

  Our review indicated that all exceptions reported to the Government Purchasing Agency are forwarded to the Minister of Works, Services and Transportation for tabling in the House of Assembly.

- The *Public Tender Act* and *Regulations* requires government funded bodies to report their public tender exceptions to the Minister of Works Services and Transportation within five days of the awarding of the contract. The Minister in turn is required to table a report of public tender exceptions within thirty days after receiving notification of the awarding of the contract, if the House of Assembly is in session. If the House of Assembly is not in session the report must be tabled within thirty days of the opening of the next session.

  Our review indicated numerous instances where government funded bodies were not informing the Minister of Works Services and Transportation of public tender exceptions within the five days specified by the Act and Regulations. Many public tender exceptions were not reported to the Minister for several months and in some cases over two years. Some of these are presented in Figure 3 as follows:

Figure 3

Examples of the Public Tender Exceptions Not Reported to the Minister By the Required Time Frame

Government Funded Body	Description	Contract Price	Award Date	Month included in Report to the House of Assembly
Department of Works, Services and Transportation	Purchase of two used water bombers	$ 7,200,000	15 August 1995	May 1996
Marine Institute of Memorial University of Newfoundland	Replacement Projector Ships Bridge Simulator	$ 716,039	29 September 1995	August 1996
Health Care Corporation of St. John's	Specialty copier	$ 203,811	1 April 1996	March 1997
Department of Works, Services and Transportation	Relocate telephone lines for highway	$ 145,244	2 August 1994	September 1996
Health Care Corporation of St. John's	Computer Tomography (CT) scanner service contract	$ 107,856	19 July 1995	August 1996
Western Memorial Hospital Corporation	Preventive maintenance Computer Tomography (CT) Unit	$ 96,684	22 June1994	September 1996
Department of Works, Services and Transportation	Relocate power lines for highway	$ 76,504	2 August 1994	September 1996
Western Memorial Hospital Corporation	Parts for x-ray unit	$ 65,550	22 June 1994	September 1996
Memorial University of Newfoundland	Maintenance of fire alarm system	$ 52,060	1 April 1995	August 1996

Source: Reports of Public Tender Exceptions

In addition, our review of the minutes of the House of Assembly disclosed that:

- the Public Tender Exception Report for March 1996 which should have been tabled in the House of Assembly by 30 April 1996, was tabled on 6 June 1996;
- the Public Tender Exception Report for April 1996 which should have been tabled in the House of Assembly by 30 May 1997, was tabled on 18 June 1996; and
- the Public Tender Exception Report for March 1997 which should have been tabled in the House of Assembly by 30 April 1997, was not tabled prior to the adjournment of the House on 20 May 1997.

Recommendations

All government funded bodies should comply with the Public Tender Act *and the* Public Tender Regulations *and report all public tender exceptions to the Minister of Works, Services and Transportation within the period required by legislation.*

The Government Purchasing Agency should ensure that it receives information relating to all public tender exceptions from all government funded bodies and it should review and challenge this information to ensure that it is complete, accurate and in compliance with legislation.

Agency's Response

On a general level, the Auditor General has highlighted that there were $9 million worth of exceptions. The $9 million represents approximately 13% of the $70 million the Government Purchasing Agency procured. However, $5.1 million of this $9 million was for school books which are purchased directly from the publishers.

The Government Purchasing Agency (GPA) does not have the human resources available to perform compliance reviews of all government funded bodies subject to the Public Tender Act, who are not tendering through GPA. To undertake such a compliance regime to ensure all exceptions were reported within the 5 day period would necessitate placing GPA personnel in practically every government funded body office, reviewing each procurement to determine whether it required reporting and to get it done within 5 days.

Something that can be done to increase compliance is to increase knowledge of the Act and its specific requirements. GPA has a Communications and Promotions Officer who is actively working towards this goal by visiting government funded bodies and offering assistance in tendering matters. Efforts in this area have been increased within the previous two years and will continue in the future. In addition to this, GPA proposes issuing a "promotional package" to the government funded bodies which outlines the requirements under the Act and names and contact numbers for assistance.

With regards to the examples of exceptions outlined in Figure 3, the examples outlined for the Department of Works, Services, and Transportation:

1. *Purchase of two used water bombers*

   This delay in reporting resulted from an oversight of the officials involved in that they did not realize a Form B was required. When it was brought to their attention a Form B was completed.

2. *Relocation of telephone lines*

3. *Relocation of power lines*

   The delay in reporting of the two sole source purchases (2&3) for the relocation of utility lines resulted from departmental staff's unawareness of this being an acquisition requiring reporting. This was not viewed as a true acquisition, in the sense that it could only be provided by a monopoly and hence there was no need to report it just as power bills are not reported. When it was brought to the staff's attention a Form B was prepared.

Department of Education

3.14 School Board Expense Review

Introduction

The Department of Education spent in excess of $734 million on developing and maintaining a provincial education system in 1996-97. As shown in Figure 1, 75% of this amount was spent in providing financial assistance to school districts to administer a primary, elementary and secondary school system.

Figure 1

Department of Education
Primary, Elementary and Secondary Education Financial Assistance
Years Ended 31 March

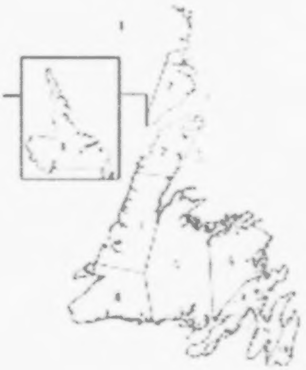
Expenditure	1997	1996	1995
Teaching Services	$378,986,907	$370,223,708	$357,350,705
School Board Operations	132,870,317	128,165,387	131,745,516
School Supplies	4,618,641	4,160,216	4,885,593
Building & Equipping Schools	33,333,581	7,596,563	13,375,508
Other Financial Assistance	4,061,912	4,355,617	4,271,150
Special Payment-Teachers Pension	0	1,632,300	28,983,000
Total Financial Assistance	$553,871,358	$516,133,791	$540,611,472

Source: Public Accounts

On 1 August 1996, in accordance with subsection 4(1) of the amended *Schools Act*, the Lieutenant-Governor in Council established 10 school districts under the *Boundaries of School Districts Order*. The existing 27 school boards continued to exist and administer the schools within their jurisdiction until their dissolution on 31 December 1996. Figure 2 shows the boundaries of the 10 new school districts.

Figure 2

Department of Education
School Districts
31 December 1996



District #	School District Name
1	Labrador
2	Northern Peninsula\Labrador South
3	Corner Brook\Deer Lake\St. Barbe
4	Stephenville\Port aux Basques
5	Baie Verte\Central\Connaigre
6	Lewisporte\Gander
7	Burin Peninsula
8	Clarenville\Bonavista
9	Avalon West
10	Avalon East

Scope and Objectives

In May 1997, we completed a review of the restructuring of the 27 school boards into 10 district school boards. The objective of this review was to assess whether financial controls and practices during the wind-up were adequate and whether transactions were made in accordance with Government and board policies and procedures. This review included an examination of staff remuneration, operating expenses and capital asset controls of three former school boards, and a review of staff remuneration for seven other former boards during the 18-month period prior to the dissolution of these school boards.

As a result of findings during our review of the old boards, we expanded our examination to review compensation practices at three of the new district school boards.

Conclusions

Financial controls and practices during the wind-up of the Province's 27 school boards and the start up of the 10 new district school boards were not adequate. In addition, in areas where it was apparent that boards were not complying with Department of Education policy, the Department did not initiate any action to ensure boards adhered to its policies. Specifically:

- The executive staff, consisting of director and assistant director positions for the 10 new district school boards, are required to be paid using salary scales approved by the Lieutenant-Governor in Council. When approving these salary scales, the Lieutenant-Governor in Council directed the Department of Education to ensure that boards place employees on the approved scale at the step next highest to their current salary, but in no case above step 33.

  The Minister of Education communicated the approved salary scales to the district school boards on 25 October 1996 and at that time indicated that the boards did not have the authority to top up the approved salaries. However, in a letter dated 15 November 1996 to the executive director of the Newfoundland and Labrador School Boards' Association, the Minister provided flexibility to the boards in placing executive staff at a step on the approved scale not in excess of step 25 as long as the boards had other funds to pay these salaries.

  A review of all 10 new district school boards' salary classifications identified seven boards which had informed the Department of Education to pay some of their directors and assistant directors at higher levels than that approved by the Lieutenant-Governor in Council. Contrary to the direction of the Lieutenant-Governor in Council, the Department of Education paid the higher salaries as requested by the school boards. The amount in excess of the approved levels totalled approximately $160,000. Although the Department is not funding this additional salary through its salary grants to school boards, it is being funded through other grant sources.

- The salary scales for the director and assistant director positions for the 10 new school boards were established using Treasury Board's Hay system for executive staff. This resulted in salary scales for employees based upon their level of responsibility. However, boards were directed to place employees on the step of the scale next highest to their current salary and as a result inconsistencies in salary levels within the previous system have been incorporated into the current system.

- There are 10 directors and 30 assistant directors in the 10 new school boards. In establishing the minimum salary a director or assistant director could be paid the Department requested employees to complete a form indicating their current annual salary levels. We assessed the accuracy of 12 of the 40 salary submissions. Our review indicated that 5 of the 12 salary submissions included one-time bonuses, bonuses not actually paid, inflated bonuses and one-time vacation payments as part of their annual salary. The Department's annual funding for administrative salaries for 5 of the 12 school board executive positions is therefore overstated by approximately $26,000.

- The Department of Education informed the school boards that employees who accept lower paying positions as a result of their positions being made redundant be treated in accordance with Government's voluntary demotion policy. This policy states that the rate of pay for the employee shall be established on the pay range of the new position at a rate that does not exceed the employee's present rate. Our review disclosed two instances where employees' salaries were maintained at their old rates when their previous positions were declared redundant and they were transferred to lower paying positions with the new boards. This results in approximately $25,000 being paid annually in excess of what they should have received.

Our review of 10 former school boards during the period of dissolution indicated numerous instances where the boards did not comply with the direction of the Minister of Education and the *Schools Act*. Specifically:

- In July 1996, the Minister of Education informed school boards that, upon retirement or resignation, superintendents and assistant superintendents are entitled to payment for up to 50 days annual leave which was in accordance with Departmental policy. Our review disclosed five instances where former superintendents and assistant superintendents received a total of $65,917 in board payments in addition to the 50 days paid or brought forward by the Department.

- Superintendents' and assistant superintendents' annual salaries, representing 365 days, were paid out over 26 pay periods or 364 days. Over a five- to six-year period this results in one week's pay. The Department of Education, in accordance with the Newfoundland and Labrador Teachers' Association Collective Agreement, did not pay the superintendents' and assistant superintendents' salaries for one week in August 1995. However, 9 of the 10 former boards examined paid this week's salary from other funding.

- All three of the former boards that we examined in detail held annual and retirement dinners and gave appreciation gifts to board members and staff. Total costs of these dinners and gifts were approximately $19,000. Also, one of these boards gifted two computers to two retiring employees, one of which had an original cost of approximately $5,000. We note that neither the *Schools Act* nor the July 1996 amendment to the Act provided for such transactions.

- In three of the former school boards we examined controls over assets at the time of dissolution. We found that these school boards did not maintain an adequate record of assets. Listings were prepared as a result of the dissolution of the school boards. However, these could not be supported by an ongoing record of capital assets. We also note that these listings did not always provide brand names or serial numbers for easy examination.

Findings and Recommendations

Compensation Issues of New District School Boards

The old *Schools Act* allowed a board to set remuneration for its staff; however, section 103 of the new *Schools Act, 1996* states that salaries for directors and assistant directors will be paid in accordance with scales approved by the Lieutenant-Governor in Council and that a board will not pay remuneration greater than the approved scales. These salary scales were approved by Treasury Board on 4 October 1996 and by the Lieutenant-Governor in Council through OC 96-828. This approval indicated that successful applicants were to be placed on the approved salary scale at the step next highest to their current salary, but in no case above step 33.

The Minister of Education communicated the approved salary scales to the district school boards on 25 October 1996 and at that time indicated that the boards did not have the authority to top up the approved salaries. Subsequently, in a letter dated 15 November 1996, the Minister provided some flexibility to boards and permitted them to appoint the new directors and assistant directors at any step on the approved scale not in excess of step 25 as long as the boards were prepared to fund the difference in salary from other funds. A review of all 10 new district school boards' salary classifications noted that seven boards directed the Department of Education to pay some of their directors and assistant directors at higher levels than that approved by the Lieutenant-Governor in Council. Contrary to the direction of the Lieutenant-Governor in Council, the Department of Education paid the higher salaries as directed by the school boards.

One board is paying its four executive staff above step 33 of the salary scale. The Department indicated that this additional salary is paid from local funding. However, section 103 of the *Schools Act, 1996* prohibits a board from paying remuneration above the approved scales. Figure 3 shows a comparison of salaries approved by the Department and the boards.

Current board executive salaries are determined by three factors: the Hay point system used to rate each position, the employees' former salary, and each Board's decision to top up the Department's approved salaries. This salary process has created a wide variation in the salary levels of employees with similar position descriptions and responsibilities. As indicated in Figure 3, the directors' salaries range from $70,903 to $95,121 while the assistant directors-curriculum range from $66,461 to $83,405, the assistant directors-personnel range from $65,145 to $83,405 and the assistant directors-finance range from $47,023 to $80,802.

Information pertaining to each director's and assistant director's previous salary while employed in the school system was obtained by the Department of Education from the previous employer or employee. Where the previous employer was a school board, a standard form was completed indicating board-paid salaries, teachers' payroll bonuses, board bonuses and car allowances.

The salaries and bonuses were then used to establish where the employee should be placed on the salary scale and how much the Department of Education would fund through its salary grants. The Department did not clearly define annual salary and bonuses and as a result some boards and employees submitted salary information which included one-time bonuses, bonuses not paid, inflated bonuses and one-time vacation payments. These amounts should not have constituted part of an individual's normal annual salary cost and should have been excluded from the salary classification process.

Our detailed review of salary information at 3 of the 10 new boards disclosed the following:

Figure 3

School Boards
Executive Salaries
31 December 1996

District	Department Calculated Salaries					Board Paid Salaries					Salary Top-up by Board
	Director	Assistant Director			Total	Director	Assistant Director			Total	
		Curriculum	Personnel	Finance			Curriculum	Personnel	Finance		
1	$72,444	$71,067	$71,067	$65,832	$280,410	$95,121	$83,405	$83,405	$80,802	$342,733	$62,323
2	75,527	62,513	61,197	65,832	265,069	80,151	66,461	66,461	65,832	278,905	13,836
3	77,681	76,868	65,200	53,894	273,643	83,287	76,868	71,377	62,041	293,573	19,930
4	89,694	73,436	76,868	61,415	301,413	89,694	73,436	76,868	65,175	305,173	3,760
5	80,608	66,870	79,227	66,848	293,553	85,543	71,231	79,227	70,224	306,225	12,672
6	76,495	69,778	67,597	54,018	267,888	85,543	75,592	75,592	54,018	290,745	22,857
7	70,903	67,119	65,145	47,023	250,190	70,903	67,119	65,145	47,023	250,190	0
8	79,380	69,751	69,751	64,657	283,539	79,380	69,751	69,751	64,657	283,539	0
9	74,850	67,597	69,778	67,523	279,748	85,543	75,592	75,592	67,523	304,250	24,502
10	85,596	72,470	70,975	75,032	304,073	85,596	72,470	70,975	75,032	304,073	0
Total	$783,178	$697,469	$696,805	$622,074	$2,799,526	$840,761	$731,925	$734,393	$652,327	$2,959,406	$159,880
Low	$70,903	$62,513	$61,197	$47,023	$250,190	$70,903	$66,461	$65,145	$47,023	$250,190	$0
High	$89,694	$76,868	$79,227	$75,032	$304,073	$95,121	$83,405	$83,405	$80,802	$342,733	$62,323
Avg.	$78,318	$69,747	$69,681	$62,207	$279,953	$84,076	$73,193	$73,439	$65,233	$295,941	$15,988

Source:Department of Education Salary Information

- One employee included one and one-half years' bonus payment of $7,500 as a salary component in the submission to the Department of Education. This employee received their 1995-96 annual bonus of $5,000 in the first half of 1996 and then received their full 1996-97 bonus of $5,000 during the second half of 1996. If only the annual bonus of $5,000 was reported, this person would have been placed on step 31 at $75,495 instead of step 33 at $76,868, a difference of $1,373.

- Two employees received one-time cash payments in June 1996 of $3,500 and $5,000 respectively on the windup of the board. These bonuses, however, were reported to the Department and included in the salary calculations in the amounts of $7,000 and $10,000 respectively.

  In the case of one of these employees, the Department-approved salary was at step 19 for $61,415; however, if the one-time cash payment had been excluded, the new salary would have been based on step 8 at $54,521, a difference of $6,894. We also note that the district board approved and the Department paid an additional $3,760 above the already inflated salary of $61,415.

  For the second employee, the salary was approved by the Department on step 33 at $76,868; however, if the one-time cash payment was excluded, the approved salary would have been based on step 24 at $70,691, a difference of $6,177.

- Payments for unused vacation days for two employees were recorded as bonuses in their submission to the Department of Education. The Department approved their salaries on step 33 at $89,694 and step 28 at $73,436 respectively. Payment for unused vacation days should not have been considered as an addition to the annual salary as the cost of vacation days is already included in their gross salary. If excluded, their approved salaries would have been based on step 24 at $82,487 a difference of $7,207 and on step 21 at $68,632, a difference of $4,804, respectively.

Treasury Board Minute 95-444, dated 9 November 1995, states that employees who accept lower paying positions as a result of redundancy be treated in accordance with the voluntary demotion policy. This policy states that the rate of pay shall be established on the pay range of the new position at a rate that does not exceed the employee's present rate. Our review of employee transfers disclosed instances where employees who were subject to voluntary demotions did not have their salaries reduced. For example:

- The business manager of one former board was employed in a new position as office manager/comptroller and the salary was the same as the old salary of $59,393. The highest step on the approved salary scale for this position is $45,389. As a result, this employee is being paid $14,004 annually above the approved salary.

- The assistant business manager of one former board was appointed as acting business manager when the business manager went on unpaid leave in August 1996. The position of business manager was declared redundant at the old board as at 20 January 1997. The acting business manager was transferred to the new district school board as supervisor of maintenance and the salary of $55,000 as acting business manager was retained and red circled. The salary for the position of assistant business manager was $42,000 and the highest step on the approved salary scale for the position of supervisor of maintenance at the new board was $43,560. As a result, this employee is paid $11,440 annually above the approved salary.

In summary, 7 out of the 10 new school boards directed the Department to pay some of their executive staff a total of $159,880 above the salary levels as approved by the Lieutenant-Governor in Council. A review of 3 of the 10 new school boards found that 5 employees had submitted inflated salaries which resulted in an additional $26,455 in annual approved salaries. Also, a review of school board employee transfers to the new boards noted two instances where staff were declared redundant, considered to be involuntarily demoted and paid a total of $25,444 above the highest step of the approved salary scale for their positions. These overpayments result in additional total salaries of $211,779.

Recommendation

The Department of Education should:

- *comply with the directions of Cabinet;*
- *ensure the accuracy of all salary submissions provided by the newly appointed directors and assistant directors by reviewing the records of the 10 school boards; and*
- *ensure boards comply with the* Schools Act, 1996 *and Department-approved salaries are not increased by the boards.*

Department's Response

The Minister of Education approved the salary scales of all new Directors and Assistant Directors of Education. This approval was consistent with the salary scale approved by Treasury Board.

The Minister did indicate that school boards had some flexibility for placement within the salary scale provided that no one was placed beyond step 25 and that the boards paid the salary differential from their own funds.

In providing this flexibility the Minister was not acting outside of the direction of the Lieutenant-Governor in Council and more importantly was acting within the spirit and intent of the direction to assist with the task of moving from 27 to 10 boards and dealing with rather difficult human resource issues.

Resulting from our discussion on your draft report, the Minister wrote the chairperson of each board and asked for a rationale for each case in which the salary of the Director and Assistant Director exceeded the Department's placement on the salary scale. These reports are on file and if you or your staff wish to review then we would be pleased to provide them to you.

Your testing procedures consisted of reviewing three of the ten boards in the Province. Because of the results of your work the Department is undertaking to conduct reviews of the remaining seven boards to ensure that any outstanding issues are clearly identified and resolved.

Although the Department has provided the new Boards with the various policy and procedure manuals pertaining to benefits such as annual and sick leave, retirement parties and gifts, severance, redundancy and unused annual leave, and provided some inservice on these issues, we will reinforce the matters set out in the various policies again with the boards to ensure a full and complete understanding.

Boards' Response (Summarized)

(Re: Salary top-ups)

Further to the Minister of Education's communication of 25 October 1996 indicating that boards did not have the authority to top up the approved salaries of directors and assistant directors, the Minister wrote Dr. Myrle Vokey, Newfoundland and Labrador School Boards Association, on 15 November 1996. In the last paragraph of that letter the Minister stated "However, in light of concerns expressed by School Boards, we are prepared to provide School Boards with the flexibility to appoint the new Directors/Assistant Directors at a step on the approved scale not in excess of step 25 provided the Board is prepared to fund the difference in salary from other funds available to the Board."

(Re: Bonus of $7,500)

The wording of the personal service contract is... "The parties agree that the Board shall pay a minimum annual allowance to the Superintendent of $5,000.00. Increases to this allowance shall be negotiated annually on the basis of merit as measured by the Board's annual performance appraisal of the Superintendent."

The first appraisal was completed in the Winter of 1995 and the minimum allowance of $5,000.00 was paid. In the second year an increase was discussed in this amount as a result of a very positive performance appraisal. It was agreed that the Board payment for that year would be $5,000.00 plus the $1,356.67 paid in August because of the three week gap in the pay periods.

The third year of the contract was shortened by the consolidation of the school districts. the Superintendent was receiving (pending the performance review) the minimum allowance paid bi-weekly.

Again, as a result of a position assessment of performance to date, it was decided to pay out the remainder of the allowance for the year in effect increasing the Superintendent's allowance by $2,500.00 for the May to November time period.

In a discussion on how to answer the request for salary information, it was agreed with the Superintendent that the amount of $7,500.00 be submitted. This is an accurate reflection since the Board-paid allowance in year one was $5,000.00, in year two it was $6,356.64 and in year three an additional allowance of $2,500.00 was paid out over the regular bi-weekly allowance cheques.

The auditor was provided with the T4 income statements showing payment of $16,356.67 to the Superintendent in a 2.5 year time frame since he began work. Even if placed on a yearly average the allowance would be $6,542.67, which would provide a salary above Step 33 of the new scale.

(Re: One-time Cash bonus and vacation pay)

The establishment of salary levels...was done by providing the information requested by the Department of Education. In general there was both a written submission and a discussion to clarify any questions for officials.

(Re: Voluntary demotions)

The Schools Act clearly states that the new School Boards are to follow the Personnel Administration Policies of Government. These policies have not been consolidated and published as a single document since 1987. They now consist of the original document, various amendments and relevant Treasury Board Minutes. Some policies have been revised several times. The Treasury Board Minutes that are specific to the Personnel Administration Policies were not circulated to School Boards on a consistent basis. When requests were made to Treasury Board for TBM's on a particular topic, the ones provided were not always current. The policies followed by the School Board were provided by the Department of Education.

The School Board appointed the two employees using TBM 94-278 which outlined establishing salaries using the involuntary demotion procedure. The Board was not aware of the existence of TBM 95-444 which instructed Government Departments to use the voluntary demotion policy. The Board's staff became aware of TBM 95-444 at a meeting with the Auditor General's staff on October 21, 1997. The salaries of these staff were set using the best information available at the time and are not excessive given the individuals retained by the Board.

Review of Transactions of Dissolved School Boards

Our review of transactions included a visit to 4 of the new district school boards to obtain access to transactions relating to 10 of the former school boards. These reviews were designed for us to obtain an understanding of the type of transactions that occurred during the 18 months prior to the dissolution of the boards and included a review of board minutes, scrutiny of expenditure transactions, review of staff remuneration and review of control over capital assets. Figure 4 summarizes the type of review at each board.

Figure 4

Review of School Boards
Type of Review Work

School Board	Type of Review Work			
	Staff Remuneration	Expenditure Transactions	Capital Assets	Board Minutes
District No. 10 - Avalon East				
Conception Bay South Integrated	✓	✓	✓	✓
District No. 3 - Corner Brook/Deer Lake/St. Barbe (South)				
Deer Lake / St. Barbe South Integrated	✓	✓	✓	✓
Western Integrated	✓			✓
Humber - St. Barbe Roman Catholic	✓			✓
District No. 4 - Stephenville/Port aux Basques				
Port aux Basques Integrated	✓			✓
Appalachia Roman Catholic	✓	✓		✓
District No. 5 - Baie Verte/Central/Connaigre				
Pentecostal Assemblies	✓	✓	✓	✓
Exploits Valley Integrated	✓			✓
Exploits - White Bay Roman Catholic	✓			✓
Green Bay Integrated	✓			✓

1. Conception Bay South Integrated School Board

Our review of the Conception Bay South Integrated School Board included an examination of Board minutes, a review of payroll transactions, scrutiny of expenditure transactions and a review of controls over capital assets. This review disclosed the following:

- Department of Education policy provides for the payment of up to 50 days annual leave upon retirement or resignation of superintendents or assistant superintendents. In accordance with Government's redundancy policy, payment for unused annual leave up to the 50 days was paid by the Department; however, the Board paid one employee $7,012 for 25 days of unused annual leave, in addition to the 50 days paid by the Department.

- Superintendents' and assistant superintendents' annual salaries, representing 365 days, are paid out over 26 pay periods or 364 days. Over a five- to six-year period this results in one week's pay. The Department of Education, in accordance with the Newfoundland and Labrador Teachers' Association Collective Agreement, did not pay the superintendents' and assistant superintendents' salaries for one week in August 1995. However, the Board, in its 19 October 1995 meeting, approved the payment for the one week of lost wages in August 1995 for the superintendent and assistant superintendent.

- A review of expenditure transactions disclosed that a retirement dinner in May 1996, an annual dinner in June 1996, a staff luncheon in December 1996 and related gifts cost approximately $7,900. There is no authority under the *Schools Act* for such expenditures.

- In June 1996, the Board approved the gifts for two employees consisting of computers, one of which had an original cost of approximately $5,000. In its 10 December 1996 management letter, the Board's external auditors questioned the validity of this transaction and contacted the Department of Education who in turn stated that all property vested with a school board will, upon dissolution, devolve to the succeeding school board. We note that the *Schools Act* does not provide for such transactions and the July 1996 amendments to this legislation specifically prohibit such gifts to employees.

- The Board did not maintain an ongoing record of capital assets for the Board office. Upon dissolution a list of Board office furniture and equipment was prepared which indicated the disposition of each item. However, without the ongoing record of capital assets, it was not possible to determine if this list was complete.

2. Deer Lake St. Barbe South Integrated School Board

Our review of the Deer Lake St. Barbe South Integrated School Board included an examination of Board minutes, a review of payroll transactions, scrutiny of expenditure transactions, and a review of controls over capital assets. This review disclosed the following:

- Department of Education policy provides for the payment of up to 50 days annual leave upon retirement or resignation of superintendents or assistant superintendents. In accordance with Government's redundancy policy, payment for unused annual leave up to the 50 days was paid by the Department; however, the Board paid one employee $14,356 for 53 days of unused annual leave, in addition to the 50 days paid by the Department. In addition, another employee received payment of $3,408 for 126 hours of unused vacation leave for which no records were maintained to support the leave entitlement.

- Superintendents' and assistant superintendents' annual salaries, representing 365 days, are paid out over 26 pay periods or 364 days. Over a five- to six-year period this results in one week's pay. The Department of Education, in accordance with the Newfoundland and Labrador Teachers' Association Collective Agreement, did not pay the superintendents' and assistant superintendents' salaries for one week in August 1995. However, the superintendent and assistant superintendent were paid for the one week of lost wages by the Board in August 1995 for a total of $2,615.

- A review of expenditures disclosed that a retirement dinner in June 1996, staff gifts and board member gifts cost approximately $3,010. In addition, four senior staff were each given a $200 gift certificate as tokens of the Board's appreciation for dedication and service over the years. There is no authority for such expenditures under the *Schools Act* and the July 1996 amendments to this legislation specifically prohibits such payments to employees.

- During the 18-month period from 30 June 1995 to 31 December 1996, the Board's deficit went from $206,225 to $463,620, an increase of $257,395. Our review identified that controls over expenditures were weak in a number of areas. For example, purchases of computer parts and supplies were being made through personal credit cards and reimbursed through travel claims. In addition, in September 1995, one employee travelled to Nashville, Tennessee for a business managers' convention at a cost of $4,551. The travel claim was not approved, charges were made on a Board credit card without supporting documentation and the Board minutes did not indicate approval of this trip.

- In April 1995, the Board approved an increase from $85 to $160 in management employees' monthly car allowances. In addition, management employees also claim mileage of 80 km per month for in-town travel. Government travel rules only provide for $85 per month plus recorded mileage if a private vehicle is required in an employee's work.

- The Board did not maintain an ongoing record of all capital assets at the Board office; however, during 1996 and prior to the closing of the Board office, an inventory listing of computers only was prepared which detailed the type of computer equipment and who was responsible for the equipment. Without the maintenance of an ongoing record of all capital assets, we could not determine if the listing of computers was complete. Also, the listing prepared did not detail the brand name or serial number of each computer or the disposition of each once transferred over to the new Board. A review of this listing with the computer analyst was performed and all computers on the list were located.

3. Pentecostal Assemblies Board of Education

Our review of the Pentecostal Assemblies Board of Education included an examination of Board minutes, a review of payroll transactions, scrutiny of expenditure transactions and a review of controls over capital assets. This review disclosed the following:

- In a letter dated 30 July 1996, the Minister of Education informed school boards that they should not enter into any contracts or make any commitments after 1 September 1996 without the concurrence of the new district boards. However, on 4 December 1996, the Board, without the approval of the new District 5 Board, approved retroactive pay increases of 12%, totalling $7,065, effective 1 July 1996 to three non-unionized staff and on 16 December 1996 a new collective agreement was signed between the Board and the Newfoundland Association of Public Employees.

- In December 1996, two employees received $24,000 each for redundancy pay although their employment had not yet been terminated. At the time of our review the employment of only one of these employees had been terminated and the $24,000 redundancy pay for this employee had been recovered from the Department of Education. The employment of the other employee was expected to be terminated in March 1997.

- In a letter dated 30 July 1996, the Minister of Education indicated that superintendents and assistant superintendents are entitled to payment for up to 50 days annual leave, which was in accordance with departmental policy. In accordance with Government's redundancy policy, payment for unused annual leave up to the 50 days was paid by the Department; however, the Board paid one employee a total of 144 days unused vacation pay in addition to the 50 days of paid leave which was carried forward by the Department to the new district board. Eighty days were paid in June 1996 at $22,177 and 64 days were paid in October 1996 at $17,742.

- In December 1996, one employee received $2,353 for 94 hours of overtime work accumulated. There was no documentation to support the hours worked.

- Superintendents' and assistant superintendents' annual salaries, representing 365 days, are paid out over 26 pay periods or 364 days. Over a five- to six-year period this results in one week's pay. The Department of Education, in accordance with the Newfoundland and Labrador Teachers' Association Collective Agreement, did not pay the superintendents' and assistant superintendents' salaries for one week in August 1995. In December 1995, the Board approved one week's pay totalling $1,386 for the superintendent for lost salary in August 1995.

- A review of expenditure transactions disclosed a retirement banquet on 16 June 1996 and related gifts totalled approximately $7,600. There is no authority for such expenditures under the *Schools Act* and the July 1996 amendments to this legislation specifically prohibits such payments to employees.

- During July 1996, one employee spent 12 days in St. John's preparing for Senate Hearings and incurred travel costs of $1,177 which were paid by the Board. Also, during the summer of 1995 this employee was on the Referendum Strategy Committee and submitted travel claims totalling $3,261 that were reimbursed by the Board. There is no authority for such expenditures under the *Schools Act*.

- The Board entered into a contract for $12,235 on 31 December 1996 for the retrieval, transportation, collation and storage of archival material. In addition, the Board purchased more than $16,000 worth of teaching aids in November 1996. The Board did not request public tenders for these purchases over $7,500 as is required under the *Public Tender Act*.

- The Board did not maintain an ongoing record of capital assets at the Board office; however, an asset listing for computers and furniture and equipment was prepared by the Board at the time of dissolution, noting the disposition of each item. Without an ongoing record of capital assets, we could not determine if the list prepared by the Board was complete. Most of the items on the list were transferred to the various schools or the new Board office. Items transferred to the Board office were examined for existence and all items were located.

4. Western Integrated School Board

Our review of the Western Integrated School Board included an examination of Board minutes and a review of payroll transactions. This review disclosed the following:

- In July 1996, one employee received redundancy pay although employment had not yet been terminated. This employee continued employment with the Board until its dissolution on 31 December 1996.
- Superintendents' and assistant superintendents' annual salaries, representing 365 days, are paid out over 26 pay periods or 364 days. Over a five- to six-year period this results in one week's pay. The Department of Education, in accordance with the Newfoundland and Labrador Teachers' Association Collective Agreement, did not pay the superintendents' and assistant superintendents' salaries for one week in August 1995. In February 1996, the Board reimbursed the superintendent and both assistant superintendents for the one week of lost salaries in August 1995 at a total cost of $3,884.
- Each of the senior administrators with the Board had personal employment contracts that provided for a car allowance of $200 per month within the city of Corner Brook and a per diem of $50 while on travel status. Government's policy provides for a car allowance of $85 per month plus mileage if an employee is required to use their personal vehicle for work and a per diem rate of $36 per day for executive.

5. Humber - St. Barbe Roman Catholic School Board

Our review of the Humber - St. Barbe Roman Catholic School Board included an examination of Board minutes and a review of payroll transactions.

Our review indicated that superintendents' and assistant superintendents' annual salaries, representing 365 days, are paid out over 26 pay periods or 364 days. Over a five- to six-year period this results in one week's pay. The Department of Education, in accordance with the Newfoundland and Labrador Teachers' Association Collective Agreement, did not pay the superintendents' and assistant superintendents' salaries for one week in August 1995. However, the superintendent and Assistant superintendent were both paid by the Board for the one week of lost wages for August 1995 at a total cost to the Board of $2,638.

6. Port aux Basques Integrated School Board

Our review of the Port aux Basques Integrated School Board included an examination of Board minutes and a review of payroll transactions. This review disclosed the following:

- Superintendents' and assistant superintendents' annual salaries, representing 365 days, are paid out over 26 pay periods or 364 days. Over a five- to six-year period this results in one week's pay. The Department of Education, in accordance with the Newfoundland and Labrador Teachers' Association Collective Agreement, did not pay the superintendents' and assistant superintendents' salaries for one week in August 1995. A review of the Board's payroll transactions disclosed that in December 1995, the Board approved the reimbursement to the superintendent and assistant superintendent for the one week of lost wages in August 1995.
- During 1996, the Board approved cash gifts of $5,000 and $3,500 for two senior employees and gifts of $500, $200, $100 and $100 for four other employees. There is no authority under the *Schools Act* for such gifts and the July 1996 amendments to

this legislation specifically prohibit such payments to employees.

7. Appalachia Roman Catholic School Board

Our review of the Appalachia Roman Catholic School Board included an examination of Board minutes, a review of payroll transactions and a limited review of certain expenditure transactions. This review disclosed the following:

- The Minister of Education informed the School Board in July 1996 that, upon retirement or resignation, superintendents and assistant superintendents are entitled to payment for up to 50 days annual leave. In accordance with Government's redundancy policy, payment for unused annual leave up to the 50 days was paid by the Department, however, in June 1996, the superintendent and assistant superintendent received payment for 25 and 18 unused vacation days for $6,930 and $4,711 respectively. These payments were in addition to the maximum of 50 days paid by the Department. These payments were made directly to financial institutions on behalf of these employees and T4's were not issued until we brought this matter to the attention of the new district school board.

- Superintendents' and assistant superintendents' annual salaries, representing 365 days, are paid out over 26 pay periods or 364 days. Over a five- to six-year period this results in one week's pay. The Department of Education, in accordance with the Newfoundland and Labrador Teachers' Association Collective Agreement, did not pay the superintendents' and assistant superintendents' salaries for one week in August 1995. The Board reimbursed the superintendent and two assistant superintendents for the one week of lost wages in August 1995 at a total cost to the Board of $4,003.

- In July 1996, 10 Board representatives travelled to St. John's to attend the Senate hearings on education reform and Term 17 amendments. Individuals included three Board members, a teacher representative, the superintendent, the assistant superintendent, a parent representative, two program co-ordinators and one student representative. The total cost for these 10 individuals to attend these hearings was $7,384 and included four mileage claims for private vehicles, two return and one non-return airfares, one car rental, eight hotel rooms and various meal and entertainment expenses. There is no authority under the *Schools Act* for such expenditures.

8. Exploits Valley Integrated School Board

Our review of the Exploits Valley Integrated School Board included an examination of Board minutes and a review of payroll transactions. This review disclosed the following:

- A recalculation of one employee's redundancy pay indicated that the employee worked for only 10 months of the year; however, for the purposes of the redundancy calculation the full year was used to determine the years of service. If 10 months for each of the years of service were used, the redundancy pay calculation would have equated to 39 weeks pay instead of 43 weeks, a difference of $1,577.

- Upon retirement or resignation, superintendents and assistant superintendents are entitled to payment for up to 50 days annual leave. In accordance with Government's redundancy policy, payment for unused annual leave up to the 50 days was paid by the Department; however, the Board paid one employee for 37 days unused vacation, totalling $10,733, in addition to the 50 days of unused vacation paid by the Department.

- Superintendents' and assistant superintendents' annual salaries, representing 365 days, are paid out over 26 pay periods or 364 days. Over a five- to six-year period this results in one week's pay.

The Department of Education, in accordance with the Newfoundland and Labrador Teachers' Association Collective Agreement, did not pay the superintendents' and assistant superintendents' salaries for one week in August 1995. In November 1995, the Board approved the reimbursement of the one week of lost wages in August 1995 for the superintendent and assistant superintendent.

9. Exploits - White Bay Roman Catholic School Board

Our review of the Exploits - White Bay Roman Catholic School Board included an examination of Board minutes and a review of payroll transactions.

Our review indicated that superintendents' and assistant superintendents' annual salaries, representing 365 days, are paid out over 26 pay periods or 364 days. Over a five- to six-year period this results in one week's pay. The Department of Education, in accordance with the Newfoundland and Labrador Teachers' Association Collective Agreement, did not pay the superintendents' and assistant superintendents' salaries for one week in August 1995. However, in September 1995, the Board approved the reimbursement of the one week of lost wages in August 1995 for the superintendent.

10. Green Bay Integrated School Board

Our review of the Green Bay Integrated School Board included an examination of Board minutes and a review of payroll transactions.

Our review disclosed that, upon retirement, the superintendent requested payment of 35 unused vacation days in addition to the 50 days paid by the Department. The Board approved payment but a subsequent letter from the Newfoundland and Labrador School Boards Association informed the Board of the Department of Education's 50-day maximum payment for unused vacation days. As a result, the Board did not pay the superintendent for the 35 unused vacation days.

Department's Response

Many of your recommendations deal with practices that were in place during the period when there were twenty seven boards in existence in the Province. As we have discussed, these boards have been completely restructured and the board members and in fact the staff of many of the boards have resigned, retired or moved to other positions. As a consequence, it is virtually impossible for us to deal with the issues you raise pertaining to the old boards and their operations.

We understand however, that the three Boards you have examined have provided responses directly to you explaining, to the best of their ability, the circumstances for each of the observations you have made.

Conception Bay South Integrated School Board's Response (Summarized)

- *With regard to the payment for an additional 25 days of unused vacation there would not appear to be any difficulty with this observation. As noted on Page Two of the Draft Report, the old Schools Act permitted a Board to set the remuneration for its staff. In paying this amount the Board would have been within its right and therefore, not restricted to the amount identified by the Government's Redundancy Package. As well, under current Government guidelines for management, they can, within certain guidelines prescribed, request and be paid unused leave.*

- *The observation regarding the adjustment of pay periods in 1995 is correct. However, again, the Board at that time could set the remuneration of its employees and therefore could choose to pay this extra remuneration.*

- *This point regarding the Retirement Dinner is a correct observation. However, it has been traditional that some boards recognize the service of their retirees with a dinner. The point regarding the staff function in December is also correct. It* *should be noted, though, that there was a contribution to this function, through the purchase of tickets by staff. This function was held as a final morale building gesture toward the outgoing staff given their service to the Board and the uncertainty which they now faced.*

Accordingly the Schools Act did not expressly prevent these types of expenditures.

The matter relating to the gifts to two employees is also a matter of remuneration. It was, therefore, within the Board's right to include these items as part of their remuneration packages.

- *The matter of the ongoing record of capital assets is one which continuously plagues school boards. The diversity of their operations and the minimal administration resources provided severely hamper their ability to compile and maintain such a record.*

  While it is certainly a record which every organization would strive to have, it is one which is very time consuming and resource driven. In times of declining administrative resources it is almost impossible to maintain.

Deer Lake St. Barbe South Integrated School Board's Response

- *The Business Manager was on sick leave, the assistant superintendent had been laid off, there were two program coordinators remaining of the six the previous year. Taking holidays was out of the question. As a matter of fact, a workday was usually twelve hours and in many cases even more, including many weekends of work. The number of days actually paid was but a token of the actual time spent on the job, particularly in the last two years of work. These are days that were actually worked (certified by the Department of Education as days worked) and there was no attempt to get paid for time that was not worked. The Board decided that payment would be given for time worked, as would be the case with other employees. This was felt to be the fair and reasonable thing to do.*

- *It is unfortunate that the Auditor General bases this comment on the NLTA Collective Agreement. In spite of the fact that the BASIC salary scale is taken from the Collective Agreement the total salary is determined otherwise. The work year for superintendents and assistant superintendents is 240 as opposed to the 190 days for teachers. I am not aware of any other government employees who work 240 days, who lose one week of pay every five years. Also, the School Board had the right, under the Act, at the time, to fix the remuneration of the Superintendent and Assistant Superintendent.*

- *Prior to July 1996, this activity took place on a regular basis throughout the Province to recognize the "dedication and services" of employees over the years. In the situation cited, there were eight retiring teachers and it was assumed at that time that this would be the last opportunity to honour trustees. Up to that point, trustees had spent AT LEAST seven years as members of the Board without pay or honorarium of any kind. Considering that at the dinner eight teachers and fifteen trustees were honoured, the costs were extremely modest. Regarding the $200 gift certificates to administrative personnel, this was a decision that the Board made and, for thirty years of service, could be considered modest.*

- *It is unfortunately true that the Board deficit increased substantially during the period noted. There were many extenuating circumstances surrounding the increase in deficit. Firstly, during 1995 and 1996, Government made major cuts to School Board operating grants. In December of 1995, for example (in mid-year), Government cut the budget substantially. Although every effort was made, it was impossible to recover from this* *loss. This was followed in 1996 with tremendous cuts in staff and further cuts in operating funds. This factor alone added a major amount to the deficit. Also, for example, the amount of money that was to come from IEC for the Sop's Arm project turned out to be much less than anticipated. It was also decided to network four of our smaller high schools in an effort to provide some degree of equity for all schools in the region.*

Part of this problem did arise because controls were not as strong as they should be. However, it must also be pointed out that this money (and much more) was needed at the schools. If the deficit was not on the books it would be in the schools, particularly in the technology area! There was no misappropriation of funds. The schools in the area covered by the Deer Lake Board still do not have the resources that principals and teachers would prefer, but if there was no Board deficit, many schools would not be able to offer a reasonable technology program!

It is unfortunate that the Auditor General takes the example of the purchase of computer software on credit cards and being reimbursed by travel claim. Admittedly this may have been done, and it is a very poor accounting practice. Obviously, purchase orders should always be used. However, it was not a common occurrence and is not a good example of why the deficit was so high.

Regarding the employee attending the business managers' conference in Nashville, this was done with the full knowledge of the School Board. It was not formally approved in the minutes of the Board and this is an unfortunate oversight. Regarding the expenditure on the credit card, any costs that could not be accounted for were recovered. In the Fall of 1996 all School Board credit card use was discontinued.

- *At that time the Board had a right to make this decision and the amount of $160 per month for use of private vehicle is not unreasonable. In some cases, members of the bargaining unit drive as little as 2400 km per year to qualify for the allowance. Whereas, many administrators committed vehicles for up to ten times that distance and in some cases had committed a private vehicle totally to the Board. This was, in essence, a minimal amount for having a private vehicle available to the Board. The option of renting vehicles for Board business would be an extremely expensive alternative.*

  The matter of 80 km per month (approximately $20) for in-town travel was a decision that was made by the Board many years ago. Initially it was $15 and then changed to a mileage amount. The rationale was the employees who travelled, whether to Deer Lake (including the Airport), Corner Brook, White Bay or St. John's, etc., would only charge the actual distance (printed on the back of the travel claim). In fact, this was sometimes unfair to the people using the vehicles. Many times employees complained that they should be able to claim mileage when in Corner Brook, White Bay or St. John's. The Board lost no money on this and is likely it saved money over the long term, and gained in terms of the time required to keep tract of the in-town kilometres.

- *An ongoing record of all capital assets at the Board Office should have been completed - this is good practice. Unfortunately, with lack of staff and funds, other matters took priority. It is important to note, however, that none of the technology equipment was missing and is now either at the School Board Office in Corner Brook or in schools.*

Pentecostal Assemblies Board of Education Response (Summarized)

- *In May 1996 the Pentecostal Assemblies Board of Education agreed for NAPE to be* *the bargaining agent for its support workers and in October entered into negotiations with the union. While the agreement was not signed until December, the commitment to negotiate an agreement was made prior to the appointment of the new school boards. The raises received by unionized employees ranged from approximately 2 percent to 20 percent with the average raise being approximately 12 percent. The Board felt that the three non-unionized staff should be treated the same as the unionized staff and therefore provided them a raise of 12 percent.*

- *The employee in question has since been terminated.*

- *The payment for 80 days annual leave in June 1996 was approved by the Pentecostal Assemblies Board of Education under the Schools Act 1970. Sections 17(1) and 19(1) of that Act gave school boards the legislative authority to set the remuneration for superintendents of education. This was prior to the letter of 30 July 1996 from the Minister.*

  With respect to the 64 days, it was the opinion of the Pentecostal Assemblies Board of Education that it had a legal obligation under Section 12(2) of the Labour Standards Act to pay an employee the vacation pay to which he or she is entitled upon termination of a contract of service. Because of the heavy workload of its superintendent, the Board agreed that he not take all of his entitled annual leave and be paid for unused annual leave upon resignation.

  Upon receipt of a letter of 23 December 1996 from Myrle Vokey, the Chair of the Board wrote the Minister of Education on December 30, 1996 requesting approval of the Minister to pay the 14 days above the allowable 50 approved by the Department of Education. This was a letter of courtesy to the Minister since the Board was obliged to pay the employee upon termination in accordance with the Labour Standards Act. The Minister did not respond to the letter.

  The carry forward 50 days to the new district board was subsequent to the payment for unused annual leave by the former school board.... Since the Department was informed of the payment for unused vacation pay in the letter of December 30 of the Board Chair to the Minister, it is an error of the Department to carry forward the 50 days. Since the employee has not used any of these days, the Department should correct its error.

- *The Board paid the equivalent of one week's salary to the superintendent and assistant superintendents in accordance with its legislative right under the Sections 17(1) and 19(1) of the Schools Act 1970 to determine the remuneration of superintendents of education.*

- *The Board directed the employee in question to prepare for the Senate Hearings and to serve on the Referendum Strategy Committee. It was the Board's view that the employee was representing the Board in these capacities and therefore the travel claims were a legitimate school board expense.*

Western Integrated School Board's Response (Summarized)

The employee who received redundancy pay in July had been notified in writing on 23 May 1996 that the job would become redundant as of 31 August 1996. Because of the uncertainty at the time, the employee was retained on a month-to-month basis after August until the Board was dissolved.

Reimbursement for the one week's pay for lost salary is reasonable and expected. Board's were given the right under the Education Act in place at the time to set the remuneration for its employees. The same reasoning is advanced for the car allowance and the per diem. Included in the $200 per month was car allowance, and travel in Corner Brook and its environs. Apparently, if the Board had rented/leased cars for senior staff at a much higher cost, it would not have been referred to in the

Auditor General's Report.

Humber - St. Barbe Roman Catholic School Board's Response

The Schools Act, Section 18 and 20, clearly gives School Boards the right to hire both a Superintendent and Assistant Superintendent whose qualifications are approved by the Minister and most importantly, in this case, to "fix the remuneration to be paid to such a Superintendent/Assistant Superintendent." The Humber-St. Barbe R. C. School Board chose to exercise its right by paying the Superintendent an allowance that included a week's salary in August and also a week's salary for the Assistant Superintendent. Such decisions were made in good faith following the provisions of the Schools Act.

Appalachia Roman Catholic School Board's Response

With respect to the payment of one week of lost wages for Superintendents and Assistant Superintendents in August 1995, it must be pointed out that the Department of Education applied the "payment of salary terms" of the Newfoundland and Labrador Teachers' Association Collective Agreement, which covers teachers who work only 190 days for salary, to executive staff (Superintendents and Assistant Superintendents) who are non-union and who work 260 days.

This issue has been under dispute for more than 5 years and during 1996, each School Board and the Newfoundland & Labrador School Boards Association supported the view that Superintendents and Assistant Superintendents did, in fact, lose one weeks pay by adjusting the pay period for teachers.

The School Board accepted that it is the employer and that non-teachers are paid for 260 days which constitutes a year. Therefore, since it accepted the argument put forward by the persons affected, then it was obligated to deal with the compensation issue.

It should be noted that Superintendents and Assistant Superintendents do not have a dispute resolution mechanism such as arbitration where this type of dispute could have been settled and all would know which action is appropriate in this matter.

With respect to bonuses paid to employees who were not covered by Collective Agreements, the Schools Act in effect at the time allowed for the School Board to set and pay remuneration for those employees.

This includes responsibility for payment of all benefits accrued by an employee, including annual leave accrual.

With respect to representation from the region served by the Appalachia Roman Catholic School Board at the Senate hearings of the Term 17 amendment, it must be noted that the School Board represented the Roman Catholic people and is legally recognized as their representative.

The Constitution of the Appalachia Roman Catholic School Board, which was approved by the Minister of education, states "The objects and purposes of the Board shall be to preserve and promote the interests and fundamental rights of Roman Catholic education in the district".

The interpretation of this section and the Schools Act justify participation in the Senate hearings by a broad representation of the people being served through the Appalachia Roman Catholic School District.

Exploits Valley Integrated School Board's Response

- *Under Section 12(2) of the Labour Standards Act, the Exploits Valley Integrated School Board felt a legal obligation to pay the superintendent the vacation pay to which he was entitled upon termination of his contract of service. Because of his heavy workload, he was unable to take all of this entitled annual leave. Therefore, he was paid for the 37 days unused.*
- *The Board paid the equivalent of one week's salary to the superintendent and assistant superintendents in accordance with its legislative right under Sections 17(1) and 19(1) of the Schools Act 1970 to set the*

remuneration of superintendents of education.

Exploits - White Bay Roman Catholic School Board's Response

The Board paid the equivalent of one week's salary to the superintendent in accordance with its legislative authority under Sections 17(1) and 19(1) of the Schools Act 1970 to set the remuneration of the superintendents of education.

Department of Forest Resources and Agrifoods

3.15 Newfoundland Farm Products Corporation

Introduction

Newfoundland Farm Products Corporation was established in 1963 under the *Farm Products Corporation Act*. On 6 October 1997, Government announced the sale of the Corporation to a consortium of local chicken producers. As a provincial Crown corporation, Newfoundland Farm Products Corporation produced a full range of chicken products which were marketed throughout the Province, the Maritimes and central Canada. The Corporation operated two federally inspected abattoir complexes in the Province, one in St. John's and one in Corner Brook. The Corporation processed 8.0 million chickens per year, 5.1 million in St. John's and 2.9 million in Corner Brook, resulting in 11.8 million kilograms of saleable product in 1996-97. The Corporation employed approximately 275 people and had an annual payroll of $10.2 million. Figure 1 shows operating results for the past 10 years.

Figure 1

Newfoundland Farm Products Corporation
Operating Results
For the Years 1987-88 to 1996-97
($ Millions)

	1996-97	1995-96	1994-95	1993-94	1992-93	1991-92	1990-91	1989-90	1988-89	1987-88
Sales	$35.9	$29.0	$27.3	$24.9	$22.5	$20.8	$25.5	$24.1	$21.8	$21.4
Cost of Sales	39.6	29.9	29.0	24.7	21.9	20.8	26.6	24.9	23.7	21.5
Gross (loss) income	(3.7)	(0.9)	(1.7)	0.2	0.6	0.0	(1.1)	(0.8)	(1.9)	(0.1)
Operating expenses	4.2	4.0	3.7	3.3	3.3	3.2	3.1	3.0	2.5	2.0
Operating loss from discontinued hog operation	0.0	0.0	0.0	0.0	0.8	0.7	0.0	0.0	0.0	0.0
Net operating loss	(7.9)	(4.9)	(5.4)	(3.1)	(3.5)	(3.9)	(4.2)	(3.8)	(4.4)	(2.1)
Operating grant	2.6	3.7	3.8	2.9	3.8	4.0	4.2	4.1	4.3	2.3
Excess (deficiency) of operating grant over net operating loss	(5.3)	(1.2)	(1.6)	(0.2)	0.3	0.1	0.0	0.3	(0.1)	0.2
Deficit, beginning of year	(3.8)	(2.6)	(1.0)	(0.8)	(1.1)	(1.2)	(0.5)	(0.8)	(0.7)	(0.9)
Adjustment of prior years	0.0	0.0	0.0	0.0	0.0	0.0	(0.7)	0.0	0.0	0.0
Deficit, end of year	$(9.1)	$(3.8)	$(2.6)	$(1.0)	$(0.8)	$(1.1)	$(1.2)	$(0.5)	$(0.8)	$(0.7)

Source: Newfoundland Farm Products Corporation
Audited financial statements

Sales for the past 10 years averaged $25.3 million per year, ranging from $21.4 million in 1987-88 to $35.9 million in 1996-97. The net operating loss for the past 10 years averaged $4.3 million per year, ranging from $2.1 million in 1987-88 to $7.9 million in 1996-97. Operating grants from the Province for the past 10 years totalled $35.7 million.

A new Board of Directors was appointed in November 1996 and given the mandate to pursue privatization of the Corporation. In April 1997, the Corporation closed its plant in Corner Brook and transferred processing to its plant in St. John's. In June 1997, Government announced an agreement to sell the Corporation to a consortium of local chicken producers, Integrated Poultry Limited. Government and Integrated Poultry Limited were to operate the Corporation under a joint management agreement until 31 July 1997. This was subsequently extended by 30 days to 31 August 1997 and then by 60 days to 31 October 1997. On 6 October 1997 Government announced the sale of Newfoundland Farm Products Corporation to Integrated Poultry Limited.

Scope and Objectives

We commenced a review of Newfoundland Farm Products Corporation in January 1997, prior to the privatization of the Corporation. The objectives of our review were:

- to assess the management practices of the Corporation in the areas of compensation practices, human resource management, and cash management;
- to determine compliance with legislation and other authorities; and
- to review the Corporation's financial position, operating results and purchasing procedures.

Information was obtained from a review of internal documentation and discussions with Corporation officials. We also examined transactions and procedures to determine compliance with the various authorities under which the Corporation operated.

We completed our review of the Corporation in November 1997.

Findings

Our review indicated that certain compensation practices at the Corporation were not appropriate. We identified payments totalling $76,106 to three senior officials which did not comply with Government's compensation policies. In accordance with Section 15(1) of the *Auditor General Act*, these matters were reported to the Lieutenant-Governor in Council in April 1997. I have been informed by Government that it directed the Corporation to recover amounts totalling $55,406, comprised of $5,801, $28,336 and $20,909 from the respective officials.

In accordance with Section 15(1) of the *Auditor General Act*, certain other transactions of the Corporation were reported to the Lieutenant-Governor in Council in November 1997.

Government is presently reviewing this report. As a result, the audit report on Newfoundland Farm Products Corporation has not been included in this Annual Report.

Department of Industry, Trade and Technology

3.16 The Privatization of Newfoundland Hardwoods Limited

As at 31 March 1995, Newfoundland Hardwoods Limited had total assets of $14.8 million, liabilities of $1.0 million and shareholders' equity of $13.8 million. From 1991 to 1995, Hardwoods had annual average sales of $12.9 million and during that period remitted dividends to the Province totalling $4.7 million.

When Government decided to privatize the Corporation, a business valuation performed by the divestiture consultant indicated the fair market value of the Corporation ranged from $8.6 million to $9.6 million. The 1995-96 provincial budget indicated that proceeds from this privatization were estimated at $8.5 million. Government sold the capital assets and inventory of the company in August and September 1995 for $6.7 million and estimated the immediate cash flow from this privatization to be $7.0 million. The Province will also receive 10% of Wood Preservation Industries Limited's net income to 31 October 2000. Wood Preservation Industries Limited purchased the poles and timber treatment operations of Hardwoods.

In our 1996 Annual Report to the House of Assembly, we reported on the results of our review of the privatization of Newfoundland Hardwoods Limited. This review disclosed that although the assets of Newfoundland Hardwoods were sold in August and September 1995, as of October 1996, the transactions had yet to be finalized, audited financial statements for the year ended 31 March 1996 had not been released, and the Province had only received $5.6 million of the anticipated $7.0 million in proceeds.

We now report that, as of November 1997, the transactions relating to the sale of the Corporation have still not been finalized, the audited financial statements for the years ended 31 March 1996 and 1997 are still not available, and the Province has still not received $1.4 million of the $7.0 million that was initially estimated. In addition, the consultant which had originally been engaged based on a proposal of $39,000 plus disbursements for phase 1 of the divesture is still engaged to windup the Corporation. Total fees paid to this consultant to date have been approximately $500,000 while other consultants have been paid $400,000.

Department's Response

The Province has received all proceeds from the privatization of Newfoundland Hardwoods other than surplus funds from the wind-up of the Pension Plan. As you may be aware, the wind-up of any Pension Plan has to follow a formalized process as required under the Pension Benefits Act. Admittedly, issues related to the collection of certain receivables, the Pension Plan wind-up and the disposition of surplus storage tanks have taken much longer than anticipated to finalize.

In the meantime, the financial statements for Hardwoods will be available by mid December and following their receipt we anticipate that the services of the divestiture consultant will no longer be required.

Department of Human Resources and Employment

3.17 Residential Services Program

Introduction

Individuals with developmental disabilities, historically, have been viewed by society as having needs that could not be met in the community. As such, they lived in institutions such as Exon House and Children's Home. These facilities had staffing with the necessary skills and training to deliver care to persons with developmental disabilities.

Several factors led to changes in the mid-1980's in the services provided to individuals with developmental disabilities, including the following:

- There was recognition that individuals with developmental disabilities should have the same rights and privileges as every other member of society.
- Community infrastructure had developed to the point where many individuals with developmental disabilities could have their specialized needs met in the community.
- Institutional costs were increasing and many of the individuals with developmental disabilities could live within the community with minimal supports.

In an effort to provide individuals with developmental disabilities with access to the community and to reduce overall Government expenditures, the Department of Social Services set up the Residential Services Program and closed institutions such as Exon House and Children's Home. This new Program included the use of special foster care in private homes, a developmental group home, 2 developmental maximization units and 24 group homes.

Group homes were initially the primary vehicle used to move individuals with developmental disabilities from institutions. These homes are private residential facilities operated by an incorporated community board and staffed by a co-ordinator and counsellors, where a maximum of four individuals with developmental disabilities live in a home-like environment. These group homes were seen as a transition from an institutional setting to a home-like environment in the community.

As a result of a departmental review in 1989, it was recognized that group homes were not fulfilling their original mandate of placing individuals in a home-like environment and there was an increased availability of other community living arrangements. These community living arrangements include:

- Co-operative apartments - private residential facilities operated by an incorporated community board and staffed by a live-in supervisor and relief staff, occupied by two or three individuals with developmental disabilities.
- Alternate family care - private residences which provide room and board, supervision, and personal and social care to unrelated individuals with developmental disabilities who cannot live independently, but benefit from a family environment.
- Individual living arrangement - private residential facilities occupied by one (sometimes two) person(s) and supported by a live-in supervisor with support staff or support staff (no live-in supervisor) under the Home Support Services Program.

As a result, the transition to the community living arrangements was accelerated and, in 1991, the Department closed 16 of 24 group homes in those areas where community supports could be provided to individuals with developmental disabilities.

Figure 1 outlines the costs of providing services to individuals with developmental disabilities. As this figure indicates, costs have increased from $8.2 million in 1985-86 to $18.2 million in 1996-97. The figure also indicates that the number of individuals receiving services under these programs has also increased.

Scope and Objectives

We completed our review of the Residential Services Program (group homes and co-operative apartments components) of the Family and Rehabilitative Services Division of the Department of Social Services in March 1997. The focus of this review was on the group homes and co-operative apartments components since our prior review of the Home Support Services

Figure 1

Annual Expenditures and Individuals Served
Residential Services, Exon House and Home Support
Years Ended 31 March

	Residential Services		Exon House		Home Support		Total	
Fiscal Year	Expenditures	Individuals Served	Expenditures	Individuals Served	Expenditures (Note 1)	Individuals Served	Expenditures	Individuals Served
1985 - 86	$ 3,922,909	74	$ 4,299,063	54	Not Available	Not Available	$ 8,221,972	128
1986 - 87	4,919,238	77	3,806,321	48			8,725,559	125
1987 - 88	6,587,977	97	3,844,379	48			10,432,356	145
1988 - 89	8,253,609	103	2,848,323	30			11,101,932	133
1989 - 90	11,427,262	108	730,241	10			12,157,503	118
1990 - 91	13,130,581	109	0	0	$ 1,573,289	247	14,703,870	356
1991 - 92	12,901,577	94	0	0	3,324,577	399	16,226,154	493
1992 - 93	10,006,247	85	0	0	4,731,230	503	14,737,477	588
1993 - 94	9,376,191	79	0	0	5,511,070	513	14,887,261	592
1994 - 95	8,520,234	67	0	0	10,079,873	776	18,600,107	843
1995 - 96	7,945,583	62	0	0	12,188,277	838	20,133,860	900
1996 - 97	7,120,538	64	0	0	11,070,000	882	18,190,538	946
Total	$104,111,946		$15,528,327		$48,478,316		$168,118,589	

Source: Public Accounts, Departmental Detailed Estimates and Reports from the Department of Social Services

Note 1: Home support expenditures include such things as rent, heat and light, and flat rate allowance. Home support expenditures also include amounts paid directly to the Vera Perlin Society and the Humber Valley Association for Independent Living in the 1994-95 and 1995-96 fiscal years. Information on amounts paid to the Vera Perlin Society and the Humber Valley Association for Independent living was not available for audit verification prior to 1 April 1994 or after 31 March 1996. In addition, the breakdown of the actual 1996-97 figure was not available and, therefore, comes from the Departmental Detailed Estimates.

Program had been reported in the *Report of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies for the year ended 31 March 1996*.

The objective of our review was to examine and evaluate both the Department's management of group homes and co-operative apartments and their relationship with the Home Support Services Program.

Conclusions

Expenditures for group homes and co-operative apartments under the Residential Services Program for individuals with developmental disabilities has decreased from $13.1 million in 1990-91 to $7.1 million in 1996-97. There are approximately 71 individuals served at an average monthly cost of $10,392, for an annualized expenditure of $124,704 per individual. By way of comparison, the average cost per individual per month under the Home Support Services Program is $1,212, for an annualized expenditure of $14,544 per individual.

Our review of the Residential Services Program indicated that there are a number of weaknesses in the management of the Program and as a result there are opportunities to strengthen controls.

The following issues were identified during our review:

- The Department does not have a standardized assessment tool to be used in determining the appropriate level of care to be provided to each individual with developmental disabilities. As a result, the reasons for differences in annual expenditures for each individual group home and co-operative apartment are not readily available.
- With the exception of 6 homes which are mortgaged and 1 home that is provided by a client's family, the Department funds rent on the remaining 25 homes. However, the Department has no policy on how the rental accommodations are selected and the maximum amount to be funded by the Department. Annual rents vary from $4,800 to $23,768 and at least four of the homes rented are owned by one individual. As a result, there are inconsistencies in the housing arrangements for individuals in group homes and co-operative apartments.
- Group homes and co-operative apartments are not operating, in all cases, at full occupancy. As a result, the Department is incurring expenditures in excess of the amount that it needs to operate the Program.
- There are no signed service agreements between the Department and the independently operated community boards that manage group homes and co-operative apartments. As a result, the Department does not have an accountability structure in place to clearly define the roles and responsibilities of these boards.
- The Department, as part of its total funding to the group homes and co-operative apartments, funds various assets including office equipment, home appliances and furniture, automobiles and the mortgage payments on houses owned by the boards. For example, one board has a house for which the mortgage is being funded by the Department and there is no agreement in place to address the disposition of the property in the event of a wind-up of the board. The Department intends to include the disposition of assets in its service agreements.
- Some boards have relatives of the individual(s) who receive services serving on the board. While this is a positive approach to meeting the needs of the individuals receiving services, there is a potential for conflict of interest issues.

- For the past several years, the Department, rather than the boards, has been preparing the budgets for the group homes and the co-operative apartments. This does not comply with the Department's policy. As a result of this budget process, there is no meaningful challenge of the boards' budgets and boards cannot be held fully accountable for the results of operations. In 1995-96, 8 of the 14 non-profit entity boards had expenditures in excess of the amounts budgeted by the Department.

- In the 1995-96 budget for the Residential Services Program, the Department requested, and the Government approved, approximately $1.1 million in funding for one group home and five co-operative apartments that were closed or scheduled to close when the Department prepared its budget. As a result, the Department's budget was overstated by $1.1 million. The Department used the $1.1 million for additional funding requests.

- The individuals displaced by the closure of the group homes and co-operative apartments identified above were transferred to the Home Support Services Program. Our review indicated that it generally costs less to provide services to these individuals under the Home Support Services Program.

- The Department is not adequately monitoring the activities of these boards. For example, quarterly financial information is not received on a timely basis. As a result, the Department is unable to react to changes in the boards' financial positions throughout the year.

  Although the Department has a zero tolerance policy with respect to deficits, it is not enforcing the policy. Of the 14 boards operating as at 31 March 1996, 8 reported deficits that totalled $262,645. The Department provided funding of $154,930 towards the accumulated deficit of one board.

- Even though the Department prepares the budgets and makes quarterly payments to boards, it has not reduced the funding by the boards' surplus amount in all instances as required by departmental policy. The Department's policy requires that all surpluses greater than $3,000 are to be returned to the Province or deducted from the quarterly instalments paid to the boards. Of the 14 non-profit entity boards, 6 have a combined surplus of $94,174 as at 31 March 1996.

- The Department does not adequately review the financial statements of the non-profit entity boards to ensure that expenditures relate to the approved budgets.

  Several group homes and co-operative apartments have exceeded rates established for certain categories of expenditures. The Department has not determined the reasons for these variances and has not carried out any on-site reviews of these expenditures.

  Not all expenditure categories have limits. As a result, certain types of expenditures vary significantly between group homes and co-operative apartments.

- The Department provides approximately $877,000 per year to hire staff for individuals who do not attend day programs. However, the Department is not obtaining sufficient information to determine what services are being obtained with this funding and the progress of individuals obtaining services.

  These costs are budgeted and recorded elsewhere in the Department and, as a result, the total cost of the Residential

Services Program is not considered when monitoring expenditures.

Findings and Recommendations

Program Costs

The total expenditures as reported in the financial statements of the non-profit entity boards and average monthly cost of residential services per individual by group home and co-operative apartment are shown in Figure 2.

Figure 2

Residential Services Expenditures Per Individual By Group Home and Co-operative Apartment
Years Ended 31 March

	1996			1995		
	Actual Board Expenditures	Weighted Average Number of Individuals	Cost per Individual per Month	Actual Board Expenditures	Weighted Average Number of Individuals	Cost per Individual per Month
Group Homes						
ACAB - Unit # 1	$ 638,063	3.00	$17,724	$ 632,589	3.00	$17,572
ACAB - Unit # 12 - Note 1	481,901	3.58	11,217	72,810	0.33	18,386
ACAB - Unit # 13 - Note 1	472,937	4.00	9,853	64,772	0.33	16,357
Carbonear	0	0.00	N/A	568,011	2.12	22,327
Civic # 4 Escasoni	235,544	4.51	4,352	251,841	4.57	4,592
Gambo	451,415	4.00	9,404	470,831	4.00	9,809
Marystown	3,839	0.00	N/A	451,775	2.08	18,100
Memorial United	667,010	3.88	14,326	557,822	3.00	15,495
Mount Pearl	583,821	4.00	12,163	621,094	4.00	12,939
Port aux Basques	485,657	3.00	13,490	501,951	3.00	13,943
United Church - Note 1	0	0.00	N/A	956,673	7.33	10,876
Sub-total	4,020,187	29.97	11,178	5,150,169	33.76	12,713
Co-operative Apartments						
ACAB - Unit # 2	101,851	2.00	4,244	118,658	2.00	4,944
ACAB - Unit # 3	120,199	2.00	5,008	135,949	2.00	5,665
ACAB - Unit # 4	115,916	2.00	4,830	123,373	2.00	5,141
ACAB - Unit # 5	104,435	3.00	2,901	197,625	2.25	7,319
ACAB - Unit # 6	91,434	1.00	7,620	113,138	1.00	9,428
ACAB - Unit # 7 (Admin)	156,211	N/A	N/A	192,267	N/A	N/A
ACAB - Unit # 8	311,389	2.00	12,975	295,157	1.78	13,818
ACAB - Unit # 9	137,370	2.00	5,724	84,333	2.00	3,514
ACAB - Unit # 10	236,843	2.00	9,868	226,925	2.00	9,455
ACAB - Staff in Lieu	429,141	N/A	N/A	0	N/A	N/A
ACE Independent	117,589	1.00	9,799	101,835	2.00	4,243
Bay St. George # 1 (Admin)	92,135	N/A	N/A	111,601	N/A	N/A
Bay St. George # 2	153,054	2.00	6,377	139,900	2.00	5,829
Bay St. George # 3	156,086	2.00	6,504	151,278	2.00	6,303
Bay St. George # 4	176,586	2.00	7,358	180,119	2.00	7,505

Figure 2 (cont'd)

Residential Services Expenditures Per Individual By Group Home and Co-operative Apartment
Years Ended 31 March

	1996			1995		
	Actual Board Expenditures	Weighted Average Number of Individuals	Cost per Individual per Month	Actual Board Expenditures	Weighted Average Number of Individuals	Cost per Individual per Month
Bay St. George # 5	95,122	1.00	7,927	93,467	1.00	7,789
Carbonear	124,306	2.00	5,179	112,723	2.00	4,697
Corner Brook	111,013	1.00	9,251	112,316	1.00	9,360
Farmdale Road	253,589	2.00	10,566	254,384	2.00	10,599
Grand Bank	0	0.00	N/A	25,839	0.50	4,307
Hearth Homes	0	0.00	N/A	45,715	0.67	5,686
Marystown	137,839	2.00	5,743	125,176	2.00	5,216
Memorial United	128,503	1.00	10,709	131,107	1.00	10,926
Parsons Independent	37,528	1.00	3,127	36,497	1.00	3,041
Placentia	53,028	1.00	4,419	136,900	2.00	5,704
Twin Cities (Admin)	71,253	N/A	N/A	15,749	N/A	N/A
Twin Cities # 1 - Note 2	109,534	1.52	6,005	96,291	2.00	4,012
Twin Cities # 2 - Note 2	366,583	2.00	15,274	290,714	1.94	12,488
Twin Cities # 3 - Note 2	109,541	1.00	9,128	109,087	1.00	9,091
Twin Cities # 4 - Note 2	356,736	1.00	29,728	281,157	1.00	23,430
Twin Cities # 5 - Note 2	315,677	1.00	26,306	263,456	1.00	21,955
Sub-total	4,770,491	40.52	9,811	4,302,736	43.14	8,312
Total	$8,790,678	70.49	$10,392	$9,452,905	76.90	$10,244

Source: Final and Draft Financial Statements, Departmental Officials and the Province's Financial Management Information System.

Note 1: The Avalon Community Accommodations Board (ACAB) operated two group homes (Unit # 12 and Unit # 13) for only one month in 1995. These group homes had been previously operated by the United Church.

Note 2: Twin Cities Residential Support Board replaced the Vera Perlin Society as operators of unit #'s 1 to 5 in December 1994. Actual expenditure for 1995 include the operations of the Vera Perlin Society. The Vera Perlin Society ended its operational involvement with these units in January 1995.

Our review of the breakdown of expenditures incurred and average cost per individual per month indicated the following:

- for group homes, the average cost per individual per month is $11,178 with a range from $4,352 to $17,724; and
- for co-operative apartments, the average cost per individual per month is $9,811 with a range from $2,901 to $29,728.

The average cost per individual per month for an individual with developmental disabilities under the Home Support Services Program is $1,212, with a range from $897 to $2,176 in the St. John's and Labrador regions, respectively.

Department officials informed us that the primary reason for the wide fluctuations in the average cost per individual per month is due to the differences in individual needs. The Department begins with a minimum staffing ratio of three staff for four individuals and approves staff in excess of this ratio if required.

There are no predefined standards to provide guidance in determining the number of hours of care or units of staff required to meet the needs of an individual. Departmental officials indicated that, as a result of meetings with the individual with developmental disabilities, the individual's family, a behaviour management specialist and a social worker, an individual's requirements are documented in a General Service Plan. Unlike an individualized assessment under the Home Support Services Program, the General Service Plan must consider the effect that one individual's requirements may have on the requirements of other individuals sharing those accommodations. In addition, the General Service Plan does not estimate the cost of services for financial and program monitoring purposes.

With the exception of 6 homes which are mortgaged and 1 home that is provided by a client's family, the Department funds rent on the remaining 25 homes. However, the Department has no policy on how the rental accommodations are selected and the maximum amount to be funded by the Department. Annual rents vary from $4,800 to $23,768 and at least four of the homes rented are owned by the same individual. As a result, there are inconsistencies in the housing arrangements for individuals in group homes and co-operative apartments.

Group homes and co-operative apartments are not operating, in all cases, at full occupancy. Of the 25 co-operative apartments operating in 1995-96, 11 were operating with an average of less than two residents, the stated number in departmental guidelines. Departmental officials indicated that the Placentia co-operative apartment was closed mid fiscal year and Parsons Independent co-operative apartment is a special arrangement where the Department subsidizes the annual operating expenditures paid for by the individual's family.

Recommendations

The Department should undertake the development of a standardized assessment mechanism to be used in determining the appropriate level of care to be provided to all individuals with developmental disabilities. Once developed, all individuals should be reassessed to ensure consistency in the determination of the level of care provided.

The Department should provide guidelines to the boards as to how rental accommodations should be selected and the maximum amount to be funded by the Department.

The Department should review the vacancy rate in order to maximize occupancy of group homes and co-operative apartments.

Accountability

A group home or co-operative apartment is funded entirely by the Department of Social Services but is operated under the sponsorship of an incorporated non-profit entity board. A board, while remaining distinct and separate from the Department, is required to operate the group home or co-operative apartment in full accordance with policies and procedures as prescribed by the Department. As such, these boards are accountable to the Department and have an obligation to report on their performance.

To ensure that the boards are fulfilling their obligation, the Department should ensure that boards:

- have a clear understanding of their roles, responsibilities and duties;
- possess and maintain adequate qualifications and expertise relative to their roles, responsibilities and duties;
- receive from and report to the Department timely and relevant information; and

- provide adequate direction to and monitor the management of the group home or co-operative apartment.

The Department recognized that it had a responsibility to define what is required of the boards. Accordingly, the Department began a process in 1992 to clearly define the roles and responsibilities of boards in the Province. As a result, the Department developed a service agreement which is designed to outline a board's responsibilities. The Department intends to have a signed service agreement in place for all boards effective 1 April 1997.

The Department, as part of its total funding to the group homes and co-operative apartments, funds various assets including office equipment, home appliances and furniture, automobiles and the mortgage payments on houses owned by the boards. Although the Department has included the disposition of these assets, in the event of a wind-up of a board, in its service agreements, these agreements have yet to be signed by all boards. For example, one board has a house for which the mortgage is being funded by the Department and there is no agreement in place to address the disposition of the property in the event of a wind-up of the board.

During our review we noted that some boards' members are relatives of the individuals who are funded by the Department. While it is a positive approach to meeting the service needs of the individuals, all boards should be aware of potential conflict of interest issues.

Recommendations

The Department should ensure that signed service agreements are put in place as soon as possible and regularly updated for all organizations within its responsibility.

The Department should ensure that all boards are aware of potential conflict of interest issues and it should develop policies and procedures to address this.

Budgeting

The Department has documented the financial responsibilities for all non-profit entity boards in the *Newfoundland & Labrador Funding Request Guide For Group Homes and Non-Government Agencies*. Our review indicated:

- Each organization is required to submit a budget proposal for the Government fiscal year by 15 October of each year for consideration for funding in the following fiscal year, commencing 1 April.

  For the past several years, however, the Department, rather than the boards, has been preparing the budgets for the group homes and the co-operative apartments. This does not comply with the Department's policy. As a result of this budget process, there is no meaningful challenge of the boards' budgets and boards cannot be held fully accountable for the results of operations.

- As shown in Figure 3, based on our review of the 1995-96 budget for the Residential Services Program, we found that the Department requested, and the Government approved, budgets totalling $1,064,500 for one group home (Carbonear) and five co-operative apartments (Bay St. George # 1, Bonne Bay, Grand Bank, Hearth Homes and St. James) that were closed or scheduled to close when the Department prepared its budget.

  In addition, the Department has included in its 1996-97 budget a full year's amount of $403,600 (based on home occupancy of three individuals) for the Port aux Basques group home for which actual advances during the 1996-97 fiscal year were only $153,517. The Port aux Basques group home operated with only one individual until its closure in November 1996.

Figure 3

Approved Departmental Budget and Actual Departmental Expenditures
Residential Services
Years Ended 31 March

	1996-97			1995-96		
	Approved Departmental Budget	Actual Departmental Expenditures	Variance	Approved Departmental Budget	Actual Departmental Expenditures	Variance
Group Homes						
ACAB - Unit # 1	$ 495,800	$ 518,404	$(22,604)	$ 481,500	$ 758,441	$(276,941)
ACAB - Unit # 12	431,400	447,439	(16,039)	443,600	472,501	(28,901)
ACAB - Unit # 13	455,100	425,976	29,124	447,000	475,522	(28,522)
Civic # 4 Escasoni	239,800	224,110	15,690	229,800	223,643	6,157
Gambo	399,500	413,993	(14,493)	386,300	437,333	(51,033)
Memorial United	588,200	573,2[illegible]	14,919	560,100	564,394	(4,294)
Mount Pearl	522,700	544,888	(22,188)	506,400	583,592	(77,192)
Port aux Basques - Note 1	403,600	153,517	250,083	404,300	440,859	(36,559)
Sub-total	3,536,100	3,301,608	234,492	3,459,000	3,956,285	(497,285)
Co-operative Apartments						
ACAB - Unit # 2	101,800	101,279	521	97,500	100,014	(2,514)
ACAB - Unit # 3	119,100	113,816	5,284	119,400	118,394	1,006
ACAB - Unit # 4	110,300	102,676	7,624	102,900	110,442	(7,542)
ACAB - Unit # 5	135,100	109,745	25,355	135,200	108,070	27,130
ACAB - Unit # 6	131,400	98,300	33,100	89,500	95,951	(6,451)
ACAB - Unit # 7 (Admin)	138,214	148,984	(10,770)	137,629	151,028	(13,399)
ACAB - Unit # 8	285,500	251,739	33,761	227,100	287,868	(60,768)
ACAB - Unit # 9	117,200	105,171	12,029	111,000	140,327	(29,327)
ACAB - Unit # 10	200,000	186,946	13,054	200,200	202,932	(2,732)
ACE Independent	123,500	101,480	22,020	118,500	97,136	21,364
Bay St. George (Admin)	96,854	85,734	11,120	99,179	73,746	25,433
Bay St. George # 2	157,600	158,563	(963)	148,200	156,273	(8,073)
Bay St. George # 3	169,100	170,147	(1,047)	173,300	167,503	5,797
Bay St. George # 4	160,700	143,770	16,930	162,900	171,437	(8,537)
Bay St. George # 5	93,700	94,214	(514)	99,400	93,738	5,662
Carbonear	100,400	100,954	(554)	97,700	71,746	25,954
Corner Brook	94,700	87,785	6,915	90,200	84,898	5,302
Farmdale Road	220,300	212,365	7,935	212,900	201,431	11,469
Marystown	141,200	137,024	4,176	140,300	132,340	7,960
Memorial United	116,700	105,561	11,139	111,800	109,467	2,333

Figure 3 (cont'd)

Approved Departmental Budget and Actual Departmental Expenditures
Residential Services
Years Ended 31 March

	1996-97			1995-96		
	Approved Departmental Budget	Actual Departmental Expenditures	Variance	Approved Departmental Budget	Actual Departmental Expenditures	Variance
Parsons Independent	35,400	35,435	(35)	31,500	33,360	(1,860)
Placentia - Note 2	0	0	0	127,900	53,028	74,872
Twin Cities (Admin)	92,432	96,114	(3,682)	83,192	85,474	(2,282)
Twin Cities # 1	115,700	118,889	(3,189)	106,400	114,733	(8,333)
Twin Cities # 2	216,400	241,869	(25,469)	193,900	311,331	(117,431)
Twin Cities # 3	117,600	124,913	(7,313)	122,200	99,134	23,066
Twin Cities # 4	265,900	281,416	(15,516)	251,800	285,300	(33,500)
Twin Cities # 5	252,000	293,868	(41,868)	252,900	258,294	(5,394)
Sub-total	3,908,800	3,808,757	100,043	3,844,600	3,915,395	(70,795)
Sub-total - combined	7,444,900	7,110,365	334,535	7,303,600	7,871,680	(568,080)
Group Home and Co-operative Apartments That Did Not Operate During The Year						
Bay St. George # 1	0	0	0	109,000	0	109,000
Bonne Bay	0	0	0	142,000	0	142,000
Carbonear	0	0	0	468,500	0	468,500
Grand Bank	0	0	0	145,000	0	145,000
Hearth Homes	0	0	0	90,000	0	90,000
St. James	0	0	0	110,000	0	110,000
Sub-total	0	0	0	1,064,500	0	1,064,500
Other	241,000	10,173	230,827	210,800	73,903	136,897
Total	$7,685,900	$7,120,538	$565,362	$8,578,900	$7,945,583	$633,317

Source: Notes to Departmental Estimates, Departmental Officials and the Province's Financial Management Information System.

Note 1: The Port Aux Basques group home operated with only one resident until its closure in November 1996.

Note 2: The Placentia co-operative apartment ceased operations in 1995-96.

- As indicated in Figure 3, the Department had an approved budget of $8,578,900 for fiscal year 1995-96. However, included in that budget is $1,064,500 for group homes and co-operative apartments that were no longer in operation. The budget, therefore, should have been $7,514,400. In this case, actual expenditures of $7,945,583 would have exceeded that budget by $431,183.

- The individuals displaced by the closure of the group homes and co-operative apartments identified above were transferred to the Home Support Services Program. Our review of costs of individuals in group homes and co-operative apartments compared to Home Support Services indicated that it generally costs less to provide services to these individuals under the Home Support Services Program mainly due to salaries and benefits.

- Although the Department's policy is zero tolerance with respect to deficits, it is not enforcing the policy. Of the 14 non-profit entity boards, 8 had a combined deficit of $262,645 as at 31 March 1996. Furthermore, the Department provided funding of $154,930 towards the accumulated deficit of one board.

- The Department's policy with respect to surpluses is that all working capital (current assets less current liabilities) surpluses greater than $3,000 are to be returned to the Province or deducted from the quarterly instalment paid to the boards. Of the 14 non-profit entity boards, 6 have a combined surplus of $94,174 as at 31 March 1996. Even though the Department prepares the budgets and makes quarterly payments to these boards, it still does not reduce the funding by the surplus amount in all instances as required by departmental policy.

Recommendations

The Department should ensure that boards prepare and submit budgets in accordance with Departmental policies.

The Department should not budget expenditures for entities that are no longer operating.

The Department should comply with its policy and not fund board deficits.

The Department should comply with its policy and recover surpluses from boards.

Monitoring

The Department has documented the financial responsibilities for all non-profit entity boards in the *Newfoundland & Labrador Funding Request Guide For Group Homes and Non-Government Agencies*. The information required is intended to allow the Department to monitor these boards on an ongoing basis. In addition, the Department has some policies that provide for monitoring by social workers of these operations. Our review indicated:

- The Department requires that a "... *monthly statistical report must be submitted by each district office each month in support of each monthly advance for group homes only.*" This report provides the group home name, address, vacancy data including capacity, individual name, date of birth, file number, admission date, discharge date, duration and income. Although these reports provide information for the Department to determine the reasonableness of the advances, Department officials have informed us that the monthly statistical reports have not been required for the past several years.

- Boards are responsible for supplying the Department with financial information including a quarterly budget position statement with actual year-to-date, projections for the remainder of the year, revised budget, approved budget and explanations of variances.

  Although each of the 14 boards reviewed supplied the Department with some information of a financial nature on an ongoing basis, the information was deficient. For example:

  - six have not submitted quarterly financial statements on a regular basis;
  - five submitted financial information that did not project expenditures for the remainder of the year and did not explain expenditure variances; and
  - three have not provided any quarterly financial information.

- Departmental policy requires all boards operating group homes and co-operative apartments to supply the Department with audited financial statements not later than 90 days following the end of the fiscal year.

  During the course of our review of the financial statements of the 14 non-profit entity boards for the year ended 31 March 1996, we found:

  - seven had not submitted audited financial statements by the required date;
  - of the seven not received by 30 June 1996, two remain outstanding as of March 1997, although drafts have been received; and
  - seven were submitted as required.

- Although departmental policy requires that social workers complete an annual report in a prescribed format, they are not always completed. The annual report is designed to provide information on the individual(s), the home, the staff and the board of directors. Our review of some of the annual reports indicated that there was little information included with respect to the level of services provided to the individuals and how well they are progressing in the community.

- Departmental policy sets rates for certain expenditure categories (e.g. food, telephone, office supplies, clothing, household supplies, and repairs and maintenance). Our review indicated the following:

  - Several group homes and co-operative apartments have exceeded the rates established in numerous instances and the Department has not enforced adherence to these rates. For example, 20 group homes and co-operative apartments exceeded the expenditure limit for food and 16 exceeded the limit for repairs and maintenance.
  - The Department is not determining the reasons for these variances.
  - The Department is not carrying out any on-site reviews of these expenditures.
  - Not all expenditure categories have limits (e.g. rent, mortgage payments, heat and light, audit fees and insurance). For

example, heat and light expenditures ranged from $1,325 to $6,559 and insurance expenditures ranged from $0 to $2,874.

- The Department is not monitoring the expenditures of the non-profit entity boards to ensure that expenditures relate to the approved budgets. As a result, the services provided to individuals can vary.

- In group homes, salaries and benefits range from $167,104 to $572,668 annually. In co-operative apartments, salaries and benefits range from $23,378 to $328,018 annually. Department officials informed us that the primary reason for these ranges is due to the differences in individual needs and the number of individuals. We note that two of the top three highest expenditure co-operative apartments have only one individual.

  As indicated earlier, there are no predefined standards to provide guidance in determining the number of hours of care or units of staff required to meet the needs of an individual. As a result, it is possible for individuals to receive care in excess of or below required levels.

Recommendations

The Department should ensure that boards and social workers comply with departmental policies and provide the required statistical and financial reports.

The Department should establish limits for all expenditure categories to ensure consistency in expenditures related to all individuals.

The Department should establish predefined standards to determine the units of staff required to meet the needs of the individual.

Staff In Lieu

A day program is a structured daytime activity that is attended by people residing in a residential alternative such as a group home or co-operative apartment. For the individuals served under the Residential Services Program, the options for adults include a wide variety of vocational, pre-employment/employment, on-the-job training and other age-appropriate rehabilitative services. When a day program cannot be identified for an individual, funding is provided to a board to obtain staffing in lieu of a day program. Staff in lieu funding for the 1995-96 fiscal year was $876,665 and was used for both structured and unstructured skill development programs. Individuals involved in structured day programs are supported through funding for instructional aids and attendant care, and the funding of two skill development centres (Marystown and Gambo).

Our review of this funding indicated that the Department is not obtaining sufficient information to determine what services are being obtained with the funding and the progress of individuals obtaining services under the program.

Furthermore, these costs are budgeted and recorded elsewhere in the Department and, as a result, the total cost of the Residential Services Program is not considered when monitoring expenditures.

Recommendation

The Department should obtain sufficient information to determine what services are being obtained with the funding and the progress of individuals obtaining services under the program.

Department's Response

Program Costs

Draft assessment tool was developed in 1995/96, and was piloted in the Fall of 1996. Upon completion of the pilot revisions were made to this *tool and approval to put in place has been given and is currently being implemented.*

The selection of rental accommodations is always completed in conjunction with our staff. Given the extensive variation in the needs of residents it would be extremely difficult to establish policy with respect to rental accommodations. The Department ensures that the rental accommodations selected reflect the market conditions of the area at the time and also takes into account both the number of residents as well as their individual needs. Some of our Co-operative Apartments have a live in supervisor model which means a large house is needed. Some residents are in wheelchairs which means that an accessible unit is needed and some apartments provide residence for 1, 2, or 3 persons. Each of these factors dictates the rental price ultimately paid.

The concern with the vacancy rate will be addressed in conjunction with the recent planned restructuring of the Residential Services Program. The Department no longer permits the continuance of a one person co-operative apartment. It should however be noted that filling a vacancy must give due consideration to compatibility factors and whether a particular individual wishes to move. Many times finding an acceptable resident is a protracted process. It should be further noted that where less than the normal resident population lives in a home, the staffing model is reduced accordingly.

Accountability

Service Agreements have been signed with all Boards effective April 1, 1997.

The Department has developed guidelines related to the procedures to be followed in the event of a wind-up of the Board. These guidelines include how the disposition of assets should be handled. These guidelines have been included in the signed Service Agreements which were effective April 1, 1997.

It is desirable for relatives to serve as Board Members and in fact current policy recognizes and encourages the involvement of parents in the lives of their sons and daughters. Group Homes and Co-operative apartments are much more than funded programs; they are first and foremost a home for people with disabilities and their best interests always need to have priority. Parental involvement is therefore certainly not viewed as a conflict of interest. The Department has recently developed Conflict of Interest guidelines to provide guidance and direction to all board members.

Budgeting

It is recognized that in recent years the Department did not comply with current policy when preparing annual budgets for Group Homes and Co-operative Apartments. We implemented this system a couple of years ago due to budget freezes and lack of District and Regional resources to assist Boards in the budget process. In spite of this, however, Boards were always written and asked for their input into the budget process prior to the completion of their approved budgets. The Division's Residential Services Program is presently involved in a restructuring process. Upon completion of this process we will be able to comply with the departmental budgeting policy.

It was always the Division's plan to continue to close Group Homes. The Carbonear Group Home officially closed March 31, 1995. When the budget submission was made in the fall of 1994, the closure of this setting was in preliminary stages and the closure date unknown, resulting in the request of an annual budget. A portion of these funds was expended on group home closure costs in the 1995/96 fiscal year. The remainder of the funds were expended in other areas of the program according to departmental approval.

As people leave co-operative apartments, this does not mean the home is closed. Movement of people with disabilities is an ongoing process and co-op placements are filled as suitable candidates are identified. It was always possible that these vacancies would be required to support other *clients, including group home residents as they moved.*

The Department does not usually provide deficit funding, however, in the situation described the Board had outstanding special funding requests that would have normally been funded in the fiscal year in which they were requested. However, as a result of their inability to provide adequate financial reports and explanations as to why additional funding was required approval was delayed into the next fiscal year at which time the required information was provided.

Boards have had additional expenditures in excess of the amounts budgeted by the Department as a result of approved program expenditures identified by Special Funding Requests. The normal practice is that these additional expenditures are funded in the year in which the expenditures are incurred.

All Boards are required to provide an audited statement at the end of each fiscal year. These statements are reviewed and where surpluses exist the Department will recover the calculated surplus from the next quarterly instalment paid to the board. There are situations where the Department has an outstanding special funding request from a given board and the Department will advise that board to use these surplus funds for this purpose. The Department will recover any remaining surplus funds. The Department is not aware of any situation where the aforementioned policies have not been adhered to.

Monitoring

Statistical Reports

The referenced statistical reports were required for the purpose of determining shareable costs under the Canada Assistance Plan Agreement. It was determined that these reports were no longer required for this purpose. The information provided on the Social Work Caseload Report is considered sufficient information to monitor these programs.

Financial Reports

The Department acknowledged difficulty with the Boards' financial reporting systems a number of years ago and took corrective action. Boards were written reminders when quarterly financial statements and/or audited financial statements were not received. Future quarterly payments were withheld. District Office staff were requested to meet with the Boards to determine status and in some cases assistance was provided for training in financial management. Boards who were delinquent in financial reporting were denied special funding approvals until the Division was in receipt of an up to date financial report. We acknowledge that some Boards, despite these efforts, are still not providing up to date, accurate information.

The Department has recently completed a review of the budget preparation guidelines for Boards. All expenditure categories have been reviewed and where applicable budget norms have been established to be used as guidelines and will be used when preparing and approving budgets. However, it was recognized during this review that there are individual variances amongst Boards that need to be taken into account when budgets are being completed.

The format of the financial quarterly reports requires the Boards to record their expenditures on a line by line basis. All variances from the approved budget require an explanatory note. Divisional and District Office staff would if required hold meetings with financial representatives of the Board to highlight those variances and to discuss corrective measures required. As noted previously the Department has had difficulty in receiving adequate quarterly statements from some Boards. Therefore, this procedure could not be followed in these cases but rather year end audits were relied upon.

The Group Homes and Co-operative Apartments have standard staffing ratios. Additional staffing units beyond the 3 staff to 4 residents ratio is based on the individual needs of the persons in the homes.

It should also be noted that without exception each of these persons has lived in other environments and their level of supervisory needs are both well known and documented.

Staff In Lieu

In all instances, with the exception of one board, funding provided for Boards to hire staff for individuals not attending structured day programs is used to employ staff to work in the residential facility during the day. These funds are monitored on a regular basis and only continued if residents continue to need supervision during the day.

These funds, although not a part of the approved Residential Services Budget in that fiscal year were a part of the program budget and were considered in all program budget monitoring exercises. Boards are advised of these approved funds in writing, in conjunction with their approved annual budget. All funding provided to hire staff for individuals not attending structured day programs were reported to the Auditor for that fiscal year. It should be noted that for the fiscal year 1997/98 Staffing in Lieu funds have been combined with the Residential Services budget.

Department of Health

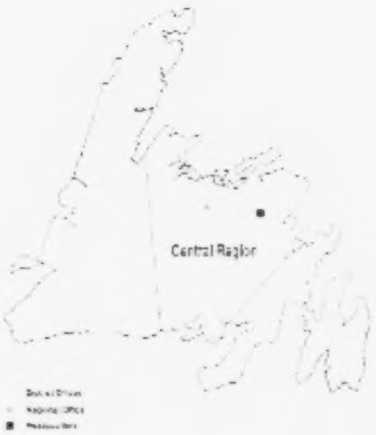
3.18 Central Regional Community Health Board

Introduction

The Central Regional Community Health Board was established in February 1994 and operates under the authority of the *Public Health Act* and the *Central Regional Community Health Board Order*. Its operations are governed by a Board of Directors, comprised of 14 members appointed by the Minister of Health. The Board is responsible for providing community health services to approximately 120,000 people in 210 communities. It does this through 3 regional and 31 district offices covering a geographical region from Charlottetown in the east, Fogo Island to the north, Harbour Breton to the south and Baie Verte in the west as portrayed in Figure 1.

Figure 1

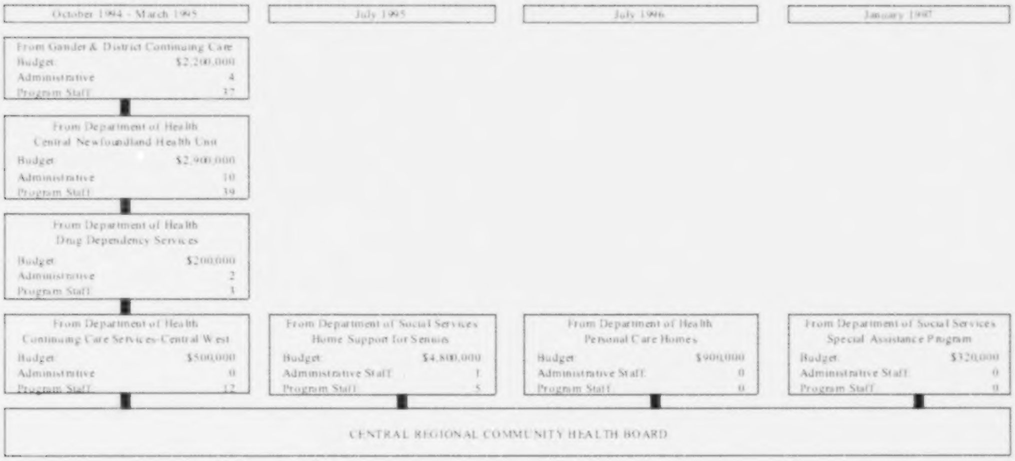
Central Regional Community Health Board Geographical Boundary



By the start of the 1995-96 fiscal year, the Board had integrated the services, programs and staff members from the Gander and District Continuing Care Program, the Central Newfoundland Health Unit and the Drug Dependency Services Division of the Department of Health. Since then, the Board has assumed additional programs, as shown in Figure 2, and now employs approximately 125 staff. Operating expenditures were approximately $10.1 million for 1995-96 and $12.7 million for 1996-97.

Figure 2

Central Regional Community Health Board
Programs Transferred to the Board
October 1994 to January 1997


October 1994 - March 1995
July 1995
July 1996
January 1997
From Gander & District Continuing Care
Budget $2,200,000
Administrative 4
Program Staff 37
From Department of Health
Central Newfoundland Health Unit
Budget $2,900,000
Administrative 10
Program Staff 39
From Department of Health
Drug Dependency Services
Budget $200,000
Administrative 2
Program Staff 3
From Department of Health
Continuing Care Services-Central West
Budget $500,000
Administrative 0
Program Staff 12
From Department of Social Services
Home Support for Seniors
Budget $4,800,000
Administrative Staff 1
Program Staff 5
From Department of Health
Personal Care Homes
Budget $900,000
Administrative Staff 0
Program Staff 0
From Department of Social Services
Special Assistance Program
Budget $320,000
Administrative Staff 0
Program Staff 0
CENTRAL REGIONAL COMMUNITY HEALTH BOARD

Scope and Objectives

We completed our review of the Central Regional Community Health Board in February 1997. This review was directed primarily to those systems and transactions related to management practices, program monitoring, purchasing and human resources. Our procedures included testing for compliance with the various authorities under which the Board operates. This review was designed to assess whether:

- management practices were adequate to provide information to management and the Board for planning, decision making, control and reporting of revenues and expenditures, and ensure compliance with legislative requirements;
- program resources, both physical and human, were adequately monitored and controlled to ensure the effective accountability of those resources;
- purchases, including capital assets, were adequately monitored, controlled, safeguarded and complied with Board policies and statutory requirements; and
- the human resource function was adequate to provide for planning and control of human resources.

Conclusions

Management Practices

Since its establishment in 1994, the Board has seen a significant increase in its programs and budget. Although a strategic planning process was started in May 1995, it was put on hold because of the changes caused by the transfer of these new programs from government departments. As a result, the Board has not completed a strategic plan.

Operational planning needs improvement in that it does not include the establishment of annual performance objectives with measurement criteria, time frames and assignment of tasks to specific individuals. Furthermore, operational planning is hampered in that the Board's annual budget is not always approved by the Department of Health prior to the commencement of the fiscal year and the Board is not always provided with timely notification about programs and related budgets transferred to them.

Program Monitoring

The Board monitors the utilization of its program resources through the use of statistics on caseloads, workloads, waiting lists and monthly financial reports. Although the Board maintains separate databases for each of its major programs, the systems for monitoring this information are not adequate. In particular:

- The monitoring of program performance data is a manual process and thus time consuming and inefficient. Performance information such as workload and caseload statistics is not integrated with the financial data to provide costs for individual activities. The Board has not developed performance standards which can be used to compare actual results. Actual performance results are not reported to the Board for review and analysis.

- There is no formal follow-up with clients within the Home Support Program for Seniors to ensure they had received the care paid for by the Board. Time sheets to support such payments did not always have the proper signatures. In addition, client files did not always contain adequate support for incomes and debts, and drug cards were issued for inconsistent periods of time, depending on the financial assessment officer.

- The Board has 14 personal care homes in its region with 175 subsidized beds and 191 unsubsidized beds. There is no periodic review of individual files to ensure adequate documentation exists to support the subsidies. Documentation to support client income and prorated subsidy calculations is not always on file.

Purchasing

Our review did not indicate any instances of non-compliance with the *Public Tender Act*. However, the Board has not documented its policies and procedures for the acquisition and control of goods and services.

The Board is not adequately safeguarding its capital assets since there is no listing of capital assets and assets are not tagged, counted annually, or agreed to the financial records.

Human Resources

A review of the recruitment, hiring and evaluation of staff, and the monitoring of leave and overtime disclosed that these areas were adequately monitored; however, except for public health nurses, performance evaluations are not performed. In addition, leave is monitored manually and, as such, is time consuming and does not provide for periodic reporting.

In November 1995, the Board requested Treasury Board to approve its reclassification of 12 management positions. The Minister of Health advised the Board not to proceed with this reclassification. The Board, however, proceeded with the reclassification and paid $69,302 in retroactive salary to these 12 staff.

The Board is paying two financial assessment officers at the HS-29 level even though Treasury Board had classified the positions at the HS-25 level. The Board appealed Treasury Board's classification of these positions and recently won its appeal.

Findings and Recommendations

Management Practices

1. Planning

Planning is a key management function which requires the Board and management to focus on key results and provides a practical method for determining accountability. Planning should consider both strategic and operational objectives as its foundation. Our review of the Board's planning process disclosed the following concerns:

- The Board approved a mission statement and statement of values in May 1995 and participated in a strategic development day in June 1996. However, except for one Strategic Planning Committee meeting, strategic planning has been put on hold as a result of the continuous transfer of programs from various government departments. Since October 1994, the Board has experienced a significant increase in its programs and budgeted expenditures. The Board's budget increased from approximately $5.4 million in 1994-95 to $12.7 million in 1996-97, an increase of 135%.
- The Board's operational planning process, other than its annual operating budget, is not formalized. Not all divisions and programs document annual performance objectives with measurement criteria, time frames and assignment of tasks to specific individuals.

Recommendations

The Board should:

- *develop a long-term strategy; and*
- *ensure operational plans are in place for each major aspect of the Board's operations and that performance indicators are established, responsibilities are assigned and time frames are set.*

Board's Response

- *There is difficulty in defining a long-term strategy in a dynamic unpredictable environment. To the extent it is possible and useful to follow a strategy established well in advance of current events, the Board will consider its strategy needs. To that end, a Board retreat is being contemplated for the Fall.*
- *Operational plans will be developed for each major program of the Board's operations. These plans will be some time in development as the Board assimilates its new responsibilities for former Social Services programs.*

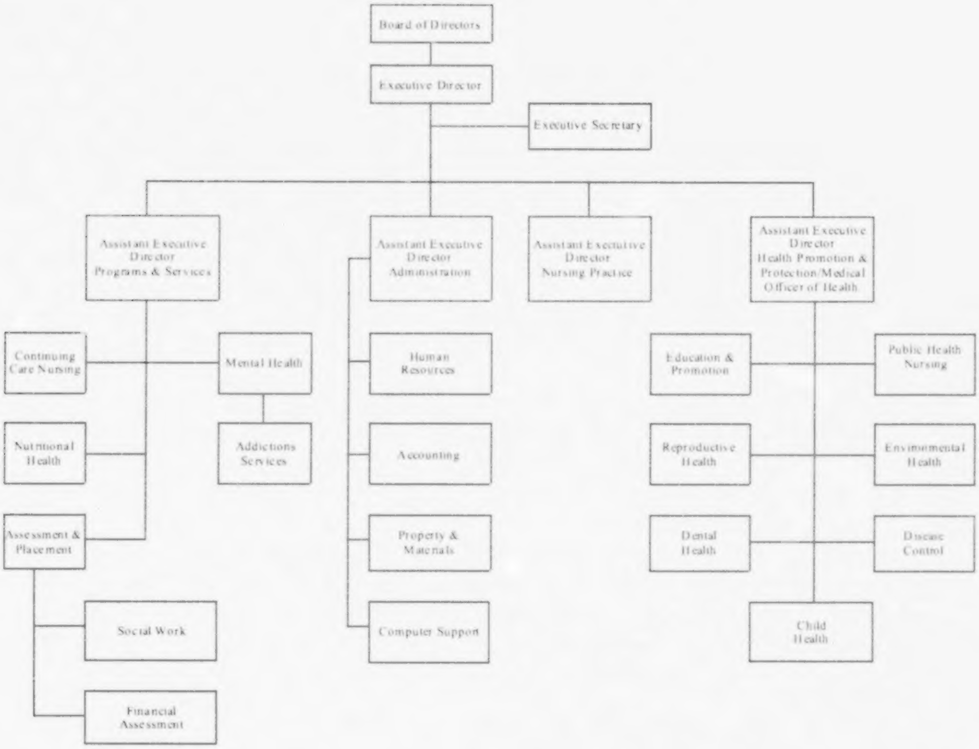
  The recommendation to formulate operational plans and establish performance indicators will at least be partially met by adoption of core program objectives and indicators, in accordance with the 'Community Health Core Programs with Guidelines' *document recently promulgated by the Department of Health.*

2. Organization

A well structured and effective organization consists of manageable units arranged by program or functional group, clearly defined reporting relationships, an established committee structure, and documented and approved policies and procedures. Figure 3 shows the Board's organizational structure, as updated by us, from a review of the Board's current programs and services.

Figure 3

Central Regional Community Health Board Organizational Structure January 1997


Board of Directors
Executive Director
Executive Secretary
Assistant Executive Director Programs & Services
Assistant Executive Director Administration
Assistant Executive Director Nursing Practice
Assistant Executive Director Health Promotion & Protection/Medical Officer of Health
Continuing Care Nursing
Mental Health
Nutritional Health
Addictions Services
Assessment & Placement
Social Work
Financial Assessment
Human Resources
Accounting
Property & Materials
Computer Support
Education & Promotion
Public Health Nursing
Reproductive Health
Environmental Health
Dental Health
Disease Control
Child Health

The Programs and Services Division includes various continuing care programs and services. Continuing care nursing involves acute and chronic care assessments, post-surgery care, and assistance in regulating medications. Addictions services involves the education, prevention and treatment for alcohol, drug and gambling addictions. The mental health program provides for the education of mental health issues, limited outpatient assessment and treatment services, and various prevention and promotion activities with community groups. Nutritional health involves the education, promotion and screening of nutrition in schools, households and in long-term care institutions. Assessment and placement involves a single entry system which provides one entry point to access both community and institutional services and includes the assessment and placement of individuals for nursing services, social work services, home support services, personal care home and nursing home placement, and the provision of special assistance for medical supplies.

The Health Promotion and Protection Division includes various public health programs which provide for the promotion, education and protection of the health of individuals in the home, school, workplace and community. Programs include public health nursing, education and promotion, disease control, child health, reproductive health, environmental health and dental health. Services include immunizations, health checks, screenings, counselling, and other educational and awareness services.

A review of the Board's organization structure indicated the following:

- The most recent organization chart at the time of our review was dated April 1995. Since that time the Board has experienced the transfer of new programs, which are not included in the organization chart. Also, the 1995 organization chart does not detail each of the departments' reporting structures.
- Except for the Human Resources Committee, Board committees do not have terms of reference. Also, the major management decision body, the Senior Staff Committee, does not have a terms of reference.
- The Board is currently updating and establishing its policies and procedures; however, it does not yet have its financial management policies and procedures documented.
- The Board does not approve all policies. Currently, senior management approves policies, with an assistant executive director signing off the policy. This practice does not ensure that Board policies are established.

Recommendation

The Board should update its organization chart, establish terms of reference for all committees and establish and approve all policies.

Board's Response

The Board will update its organization chart from time to time, to reflect significant organizational changes. Contrary to the observations raised, the current chart form does offer sufficient detail of departmental reporting structures to aid effective management.

Terms of reference are available for the Finance Committee of the Board. They are expressed in the Board's By-laws. Terms of reference for the Board's other committees will be established coincident with a general review of all Board committees. The senior staff group, often referred to as the "Senior Staff Committee", is not a Board committee in the conventional sense. The range of considerations undertaken by this group is so broad and ongoing as to render meaningless any terms of reference which might be set. As well, as a group the senior staff does not have a formal reporting relationship with the Board; its deliberations are conveyed formally to the Board by the chief executive officer, and that relationship is clearly depicted in the organization chart.

There is an ongoing process by a staff group to recommend, establish, update or identify gaps in policies and procedures. The Board has now approved funding to have one staff member work full-time for a period on this task.

The financial management policies currently in place are those developed by predecessor organizations such as the Gander & District Continuing Care Program and the Central Newfoundland Health Unit. A consolidation and review process is currently underway.

Following current practices in governance, the Board differentiates between policies that are governance in nature and those that are management. Those policies that are broadly applicable to the entire organization are reviewed and approved by the Board. The policies which are in the scope of management of a program, service or professional practice are reviewed and approved by the senior management group, including the respective assistant executive director who signs an approved policy to give it effect. In this approach Board policies are established either at the Board's initiative or upon recommendation of staff, and otherwise the Board is not unduly burdened by matters which are within the prescribed mandate of staff.

3. Budgeting

The budget process usually begins in either late fall or early winter as part of the Senior Staff Committee meetings with input from the Executive Director, each of the four assistant executive directors and the department heads. Once the original budget is prepared, it goes to the Finance Committee and the Board for review and approval. It is anticipated that the original budget will be submitted in December or January prior to the fiscal year. Once the Department of Health approves the budget, the original budget is recast and provided to the Board for approval, usually after the fiscal year begins. A review of the 1995-96 and 1996-97 budget process indicated the following:

- The 1995-96 original budget, although not approved by the Board until 26 January 1995, was forwarded to the Minister of Health in November 1994. Approval, however, was not received until 12 May 1995 and, as a result, the recast budget was not approved by the Board until 29 June 1995, three months after the beginning of the fiscal year.

- A review of the Senior Staff Committee meetings indicated that 1996-97 budget discussions did not take place until 3 April 1996. The Board neither submitted nor were they requested to submit a budget to the Department of Health. It was not until 11 June 1996 that the Board received its approved budget, even though funding had been received since the beginning of the fiscal year. There was no documentation to indicate that this budget or the allocated funding to each department was submitted to the Board for approval.

- The Board receives separate funding for the Home Support Program and Personal Care Homes. Although funding for the Home Support Program had been received since the beginning of the fiscal year, the Board did not receive its Home Support budget approval for 1996-97 from the Department of Health until 4 November 1996. As of January 1997, the Board had not yet received its budget for the subsidization of Personal Care Homes although the program had been funded for the previous six months.

- The Board's monthly financial reports are to be used for the reporting of actual to budget variance analysis. The 1995-96 fiscal year was the first full year of operations and the year-end financial reports showed many variances. Upon request, explanations were provided as to these variances; however, no written variance explanations were presented and discussed at the Finance Committee or Board levels.

Recommendations

The Board should:

- *discuss the current budget process with the Department of Health in an effort to have its budget approved before the commencement of the fiscal year;*

- *approve the budget and any breakdown or inter-departmental transfers of the budget; and*

- *ensure that budget variances are adequately explained, documented and reported.*

Board's Response

- *The Board has discussed at length with the Department of Health those matters involving the budget notification and approval process. Apparently those discussions have met with success, for the 1997-98 budget allocation was provided to us just before the start of the fiscal year.*

- *Still, there was no time before the fiscal year commenced to have Board discussion on the recasted figures so this was undertaken at the earliest opportunity since. Now the recasted budget will be sent back to the Department with the Board's approval, in time for the response date the*

Department had set. We have every reason to expect this will be the pattern for future years as we continue to receive an annual allocation within a multi-year budgeting cycle.

The unusual process followed for the 1996-97 fiscal year can only be taken as an aberration in the usual sequence of events, caused by unfamiliarity by all parties with the prospect of a multi-year budgeting cycle, and the newness of community health organizations generally and their newly acquired programs and services particularly.

With the budget allocation for the current fiscal year, funding for both the Personal Care Home and the Home Support for Seniors programs has been integrated into a global budget.

- *A method will be devised to identify and explain, to the extent required, material variances between budget estimates and actual expenditures.*

4. Financial Reporting

A major objective of a management information system is to provide sufficient and timely financial information to management and the Board to ensure financial resources are adequately monitored and controlled. Although the Assistant Executive Director - Administration and Finance distributes financial reports to department heads, the Finance Committee and the Board for review, the Board has not yet established reporting standards or policies for the timeliness, distribution and detail of financial reports. No periodic financial reports, except for the year-end audited financial statements are requested by the Department of Health. Our review of the financial reporting process identified the following:

- As at 21 February 1997, the most recent financial reports available were for November 1996. In addition, these financial reports did not show a comparison of actual to budget information. The Assistant Executive Director stated that the 1996-97 financial reporting process was delayed as a result of the late closing of the 1995-96 year-end, late budget approval and new program additions that required financial reports be reformatted.

- The 1996-97 monthly financial reports are presented by division and include Administration, Continuing Care and Public Health. Continuing Care and Public Health are further broken down by program and functional areas. Continuing Care nursing, Home Support and Personal Care Homes are also presented by district; however, Public Health nursing, although functioning in all districts, is not presented financially by district.

- The Board uses a Real World accounting software package for its financial reporting. Senior staff indicated that this system is outdated and does not meet the needs of the Board. It does not provide for the processing and automatic posting of payroll transactions, the processing of purchase requisitions or orders, or the integration of financial data with operational data. Senior staff also expressed concerns over inadequate information technology support in that the position of Information Systems Officer is vacant.

Recommendation

The Board should ensure that it receives adequate financial information on a timely basis.

Board's Response

Financial reports were delayed last year due to the reasons indicated in the audit narrative. They have since been brought up to date and the 1996-97 year-end audit is proceeding on schedule. The financial reporting system is somewhat outdated and cumbersome, though it does provide the basics for internal review and meets the present requirements of the Department of Health. There is a move *underway provincially towards more comprehensive financial and statistical reporting guidelines under the MIS system. When the provincial guidelines are complete and are adopted by our Board we will replace our existing financial reporting system.*

5. Compliance with Legislation

A review of the Board's compliance with the *Public Health Act*, the *Central Regional Community Health Board Order* and its By-laws identified the following non-compliances:

- Section 21.(1) of the Order states that the Board shall no later than 31 October prepare, adopt and submit to the Minister of Health a budget for the next fiscal year. As indicated previously, the 1995-96 budget, submitted to the Minister in November 1994, did not receive prior approval of the Board before being submitted. The Board did not submit a 1996-97 budget to the Minister for approval.

- Section 22.(1) of the Order states the Board shall prepare and present an audited annual report to the Minister of Health no later than six months after its year end (i.e., 30 September). The 1995-96 audited financial statements were submitted on 27 November 1996.

- The By-laws require that all minutes of Board committee meetings be kept. We note that Finance Committee minutes were not kept from December 1995 to September 1996 and minutes of other meetings were not signed. Also, minutes of two Human Resources Committee meetings were not kept.

Recommendation

The Board should comply with its governing legislation and its By-laws

Board's Response

In the past two fiscal years the Department of Health has neither requested nor entertained any budget submissions before allocating an approved level of funding for our Board. Under the three-year budget exercise it has been indicated and assumed that our funding levels have been frozen with the exception of program transfers.

The 1995-96 audited financial statements were submitted late to the Department primarily due to the fact that we were late in receiving a response from the Department on a critical piece of audit related correspondence.

Minutes of our Board committee meetings will be kept.

Program Monitoring

The Board's operations are divided into two main program areas, continuing care and public health. These areas represent approximately 87% of the Board's budgeted 1996-97 expenditures as disclosed in Figure 4.

Figure 4

Central Regional Community
Health Board
Budgeted Expenditures
Year Ended 31 March 1997

Program Area	Budgeted Expenditures	Percent
Administration	$1,585,300	12.5%
Continuing Care		
Nursing	2,459,200	19.4%
Assessment & Placement	500,900	3.9%
Home Support	4,500,000	35.5%
Personal Care Homes	752,600	5.9%
Addictions Services	255,400	2.0%
Mental Health	120,800	1.0%
Total Continuing Care	8,588,900	67.7%
Public Health		
Nursing	2,142,400	16.9%
Environmental Health	67,980	0.5%
Nutrition & Promotion	93,320	0.7%
Child Health	132,100	1.1%
Total Public Health	2,435,800	19.2%
Other Special Project	75,000	0.6%
Total Community Health	$12,685,000	100.0%

Source: 1996-97 recast operating budget

Although the Board has not set performance standards for its programs, it does monitor these programs through the use of statistics on workloads, caseloads and waiting lists. A review of the monitoring systems disclosed that:

- Workload statistics are entered into various databases; however, the analyzing of data is a manual process and the summarization of this data is not formalized or effective in highlighting workload inefficiencies. The manual processing and manipulation of data are also time consuming and increase the risk of error.
- Operational data pertaining to workloads, caseloads or waiting lists is not reported to the Board periodically for review.
- Operational data pertaining to workloads and caseloads is not integrated with financial information and as a result improper decisions about resource allocation may be made.

A further review of specific programs under continuing care and public health was performed to determine whether adequate monitoring systems were in place.

1. Assessment and Placement

The assessment and placement of individuals requiring the services of long-term care are governed by a single entry process. Once individuals are assessed by a continuing care nurse coordinator as to their level of care, they are assigned a file number. Individuals waiting placement into a long-term care facility are placed on an institutional registry. The registry is used to monitor the waiting list and placement of individuals based on priority. Our review of the registry disclosed that individuals are being placed according to their needs based upon their priority and level of care assessed. Our review of the Board's single entry information system, which maintains client information, found that it is not client-based. It cannot track a client from their original assessment and level of health care to their existing level of health care. This information could be useful in the monitoring of health care trends and the planning of future resources.

Recommendation

The Board should develop an integrated assessment and placement information system which can track a client's history of continuing care services provided.

Board's Response

The development of an integrated system for tracking client history is currently under development at the provincial level. When completed, this system should provide a comprehensive data base for all clients accessing a range of services including continuing care nursing, social work, and assessment and placement services. Target date for implementation is April 1, 1998. To the extent the Board has expertise and appropriate resources available at that time, it will develop and improve in this and other areas of information systems.

2. Continuing Care Nursing

Continuing care nursing includes the assessment of an individual's acute and continuing care needs and the provision of care after surgery or assistance in regulating medications through home or clinic visits. This service has seen a significant increase over the past four years due to an increase in hospital day surgeries and earlier hospital discharges.

Workloads for continuing care nursing are monitored through monthly nursing reports that record each day's caseload, visits, procedures performed and assessments completed. This data is keypunched into a database; however, the system does not provide for any analytical procedures to be performed on the data. Indicators such as average caseload per nurse, average visits per nurse, nursing visits per day, nursing visits per client, clients per clinic, average time per assessment, and average length of stay are not readily available. Also, the workload system does not capture data on actual times spent on certain nursing procedures and duties.

Our analysis of the 1995-96 workload data disclosed significant variances between districts. Discussions with senior staff indicated that these variances will always be present as a result of such things as the size of the district, type of caseload, number and type of clinics held, and the number of home support and personal care home clients assessed. However, no periodic summary reports are produced and no workload standards have been established for each district.

Recommendations

The Board should:

- *develop performance standards for each district based upon workload statistics; and*

- *develop a computerized monitoring system for its continuing care nursing workloads which is capable of analyzing workload data against set standards and reporting results to key decision makers.*

Board's Response

- *There is at present no system available to capture "workload statistics". What is being captured manually are crude statistics on the number of interventions, which cannot be used to reflect workloads as none of the other quantifying factors that impact on the intervention are being captured. It is incorrect to refer to information gathered as "workload data"; it is basically "statistical data". We would need actual workload data before we could evaluate it against performance standards. The development of the aforementioned information system greatly enhance our ability to develop these performance standards eventually. However, resources will be required especially for purchase of computers. Otherwise, this exercise will continue to be a labour intensive manual process.*

- *The two previous responses indicate what will determine the pace at which we will be able to reach full compliance with this recommendation.*

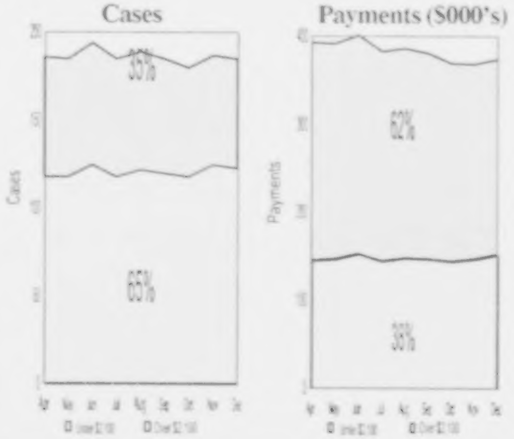
3. Home Support Program for Seniors

The Home Support Program for Seniors is designed to promote, maintain and enhance an individual's well being in their home. Effective November 1995, the maximum level of home support assistance provided to a new client is $2,100 per month while clients in receipt of home support before that date continued to receive their previously approved home support funding. During 1996-97, the Board provided, on average, $375,000 a month to approximately 185 clients. As a result of limits in funding there were 31 individuals on the waiting list as of January 1997. Figure 5 illustrates the Home Support Program's caseload and expenditures for the period April to December 1996.

As the figure illustrates, approximately 35%, or 66 of the 185 monthly support cases are above the $2,100 threshold. These cases receive approximately 62%, or $235,000 of the monthly home support expenditures of $375,000.

Figure 5

Central Regional Community Health Board
Home Support Program
April 1996 to December 1996



The Home Support Program is monitored in a number of ways. The Board submits a monthly report to the Department of Health detailing the caseloads and costs for each district. Also, the Board maintains a database for its Home Support Program which produces a monthly report on all clients and their costs. The Regional Director for Assessment and Placement also receives monthly financial reports. However, the financial information in the database system does not agree with the financial information in the financial reporting system. The database shows approved costs while the financial reporting system shows actual costs paid. As of September 1996, approved costs in the database system exceeded the actual costs in the financial reporting system by $85,954. This indicates that the information provided by the database system is not accurately reflecting actual payments made.

Home support is based upon an assessment of an individual's home support needs and their financial eligibility. Home care assessments are performed by continuing care nurse coordinators while financial assessments are performed by financial assessment officers. We reviewed 15 of the 185 cases to ensure that an individual's level of home support provided was adequately supported, calculated and paid. Our review disclosed the following:

- Verification of income, needs or personnel data was not always documented (i.e., cheque stubs, bank accounts, allowable debts, birth certificates, social insurance numbers).

- Changes to client income or needs are not always performed once individual sources of information are received. Global changes in Canada Pension or Old Age Security incomes occur quarterly and annually and where possible are updated. Overall, financial information is not usually updated until an annual financial review is initiated and all information requested is gathered.

- Drug cards are not being issued on a consistent basis. One officer is predominantly issuing cards on a six-month basis while the other officer is using three months. The policy of the Department of Human Resources and Employment is to issue drug cards for 30 days and in certain circumstances the covering period may be extended up to 90 days.

- The Board uses a standard assessment tool for assessing the number of hours of home support required for each client. This assessment does not associate the time to perform a certain group of functions to these particular functions. One assessment recommended seven hours per day for personal care while no personal care functions were checked off as needed.

- The person in receipt of home support and the home support worker are required to sign off all time sheets to confirm the home support was actually provided for the stated hours. In some instances the home support worker's time sheets were approved by the client's payroll administrator, i.e., bookkeeping firm, and in one instance signed by the home support worker. These approvals do not provide assurance that the workers actually provided the services for the stated hours. Also, the Board does not periodically verify with the home support client that the home support was provided.

- One instance was noted in which the client submitted an invoice for home repairs as an allowable debt. The invoice was deducted from the clients contribution for the next two months. The Board has no policy governing allowable debt to ensure that such expenditures are properly approved before being included as an allowable expense in the calculation of financial assistance. However, the financial assessment officer stated, depending on how much the debt is, a decision is made whether to allocate the allowable debt for periods up to a year or deduct the client's contribution up-front.

Recommendations

The Board should:

- *integrate its Home Support database with the financial reporting system to ensure actual costs are used for reporting purposes;*
- *perform periodic reviews of home support cases to ensure that the level of home support assessed is actually received and adequate documentation exists to support the assessment;*
- *develop an assessment tool which allocates times to particular home care duties to ensure consistent assessments; and*
- *develop a policy on allowable debt.*

Board's Response (Summarized)

- *The database system identifies anticipated monthly costs while the financial reporting system reflects biweekly payouts. The two systems demonstrate information which is different without being discrepant. Moreover, the actual payout per client can only be the same as or less than the amount recorded in the database system, but never more than the database amount.*

  The Board will work on devising a process of reconciliation, but it is anticipated that full reconciliation could only be made per client after the end of a full year or after a client ceases to be a beneficiary of the program.

- *The majority of home support clients are on continuing care nursing caseloads and are receiving nursing visits periodically. There is no formal checklist regarding home support received but the nurses do discuss this with the clients and bring forward any concerns. Documentation is currently by exception, where the nurse will only document if concerns are identified.*

  The type of review recommended will be part of an overall quality improvement process which recently commenced with the introduction of working teams to address organization wide policies and procedures.

- *The development of an additional assessment tool, to allocate time for particular home care duties, is unrealistic. There is a wide variety of variables (including the clients cognitive ability, the sporadic presence of other caregivers, the frequent change of health status) which make monitoring such standards a virtual impossibility. Additionally, the bulk of home support services is delivered under self-managed care. The client is the employer and it is not uncommon to find discrepancies in the recommended care and the actual client use of the resource. Deviations in time standards (e.g., bathing time, grooming time, etc.) are impossible to monitor given the myriad care settings throughout the region. If a time standard cannot be adequately monitored, it has little value.*
- *This issue is a provincial policy issue which is currently under review by the Department of Health's Continuing Care Advisory Committee. Community Health - Central will be implementing the policy as directed by the committee.*

4. Personal Care Homes

In July 1996, the Board became responsible for the monitoring and payment of subsidies for personal care homes in the Central region. Personal care homes are licensed facilities providing Level I and II type care to approved clients. There are currently 14 licensed facilities in the Central region providing 175 subsidized beds and 191 unsubsidized beds. As of November 1996, there were seven people on the waiting list with a vacancy rate of approximately 7% in the region.

The Board is responsible for monitoring the level of care provided to the residents. In July 1996, the Department of Health developed a *Policy Directive*

Manual which provides for a number of annual visits and bi-annual audits pertaining to dietary, nursing, social work, resident records, home environment and medication storage. The Board felt that many of these reports recorded much the same information and were not timely monitoring tools. Since July 1996, Board staff have met with the operators of the homes to discuss the transfer of the program and are in the process of developing their own monitoring reports. Nursing staff and social workers presently make monthly visits to the homes; however, these monitoring reports are kept in the district offices.

During 1996, a subsidy for board and lodging up to a maximum of $846 per month and a clothing and personal subsidy of $110 per month were provided to individuals depending on their level of income. A review of a sample of financial assessments and subsidies indicated the following:

- Personal care homes submit quarterly reports on resident incomes and monthly reports on resident admissions and discharges. This information is currently the main source for the financial assessments by the officers as many client files do not have documentation such as cheque stubs to support their incomes. The Board is presently in the process of conducting financial assessments, including verification of income, for all subsidized residents to support their subsidies.

- One financial assessment officer was not aware that the spouse's net income level, while staying at their own residence, was to be taken into account when determining the subsidy of the other spouse in the personal care home.

- Support calculations for determining prorated subsidies were not always kept on file.

Recommendations

The Board should:

- *develop financial policies and procedures to assist the officers in their financial assessments of residents; and*

- *discuss with the Department of Health, their concerns with the Department's* Policy Directive Manual.

Board's Response

- *The Board is currently conducting an organization wide review of policies and procedures. Included in this review will be a thorough examination of all financial policies and procedures. The Provincial Continuing Care Advisory Committee is also developing standardized monitoring and reporting systems to meet financial reporting requirements. From all of this, we will be able to develop appropriate policies and procedures to assist in financial assessments of residents.*

- *Community Health - Central has been an active participant in the review and revision of the Provincial Manual. All revisions are due for completion by July 1, 1997, with an implementation process to begin immediately.*

5. Public Health Nursing

Public health nursing involves nursing services such as infant, preschool and school immunizations, health screenings, counselling and public awareness services. The workloads of the 34 public health nurses are monitored through the Community Health Nurses Information System (CHNIS). However, reports from this system are lengthy and do not provide any summary information for monitoring purposes. The latest report received was for the year ended 31 March 1996 and was more than 400 pages in length. Nurse Supervisors use the CHNIS reports for the annual performance appraisals of staff by manually extracting the necessary information for each nurse. As of August 1996, the Board was given responsibility for keypunching data into the CHNIS database.

The Board orders and receives approximately $200,000 in vaccines from the Department of Health which it then dispenses to hospitals and physicians as well as using them for its own immunization programs. The Board has a computer system which is used to record the receiving and issuing of vaccines to hospitals, doctors and its own public health nurses; however, the system does not maintain vaccine inventories on hand.

Recommendations

The Board should:

- *discuss with the Department of Health its need to have summary data to monitor the public health nursing workloads; and*
- *improve its controls over vaccinations by recording vaccine inventories on the computer system and periodically reconciling these to actual counts.*

Board's Response (Summarized)

- *Responsibility for input of Community Health Nursing Information System (CHNIS) data has recently changed from the Department of Health to the Community Health regions. This will allow some manipulation of data locally to give more information. Regrettably, no funding for key punching data was transferred from the Department of Health, so that the timelines of statistics will not be optimal. In addition, compliance with MIS in coming months will likely lead to some changes in how data is collected and information is retrieved. Eventually as resources permit, all public health nurses should have computer access to allow them to input their workload. That information is to be integrated as much as possible with record keeping.*
- *The vaccine breaks into three categories:*

  (1) Routine Vaccine Programs - In order to ensure that no office is holding too large a supply of vaccines, we will institute a monthly or quarterly inventory from nurses.

  (2) Vaccines Used for Emergencies - These vaccines are...supplied to acute care settings via the two acute care boards in the region. This is now managed in their pharmacy departments along with other drugs, through regular hospital inventory control methods. We feel this is adequate monitoring.

  (3) Influenza Vaccine - We will now put in place an inventory review by telephone in July of each year to get the number of doses of vaccine remaining which will outdate at the end of July, with a reminder to dispose of the vaccine at that time prior to the new flu vaccine season. When there are large unexplained existing inventories, we will adjust the current year's orders accordingly.

Purchasing

For the year ended 31 March 1996, the Board spent approximately $4.2 million for goods and services. Our examination in this area included a review for compliance with the *Public Tender Act* and *Regulations*. It also included a review of the Board's policies and procedures, controls over purchasing, travel expenditures and capital assets. Our review disclosed the following:

- Our review of 10 purchases not requiring public tenders and 3 purchases requiring public tenders during 1995-96 and 1996-97, for compliance with the *Public Tender Act*, disclosed that the Board complied with the Act. Although section 8.3.1.1 of the *Medical Capital Equipment Acquisition Process Guidelines*, which was prepared for the Department of Health, states that *"Specific manufacturers and/or models should not be mentioned as this will limit competition."*, 1 of the 3 tender calls requested the exact model name and number or "equivalent." The Board received requests for bid documents from 10 suppliers; however, only 3 bids were received with the preferred bidder being the vendor supplying the model requested.

- Controls over purchasing, payables and payments are weak. The Assistant Executive Director-Administration and Finance affixes the other cheque signing officer's signatures through the use of a cheque signing machine and then signs the cheques. Also, once signed, cheques are returned to the accounts payable clerk, who prepared the cheque, for further recording and mailing. In addition, there is no purchasing policies and procedures manual to provide guidance to staff.

- The Board has documented its management travel policies in its *Management Personnel Policy Manual* which states that allowances are subject to limits as *"...prescribed by the Department of Health or adopted by the Board from time to time."* Other than this statement, no travel policies and procedures are documented. Our review of a sample of travel claims indicated that not all travel claims are being approved by the immediate supervisor before being processed, and there are no policies in place for entertainment expenses.

- The Board has a draft conflict of interest policy for employees; however, the policy does not define "family" or what is considered to be a "conflict of interest." Also the policy does not describe the procedure for reporting a potential or actual conflict of interest to senior management or how to resolve the conflict. The By-laws refer to Board members and conflict of interest situations; however, these are general guidelines and do not adequately address all issues concerning conflict of interest.

- As at 31 March 1996, the Corporation reported approximately $686,000 in property and equipment. A review of physical and accounting controls over capital assets disclosed that a capital asset ledger is not maintained, there is no reconciliation of physical assets on hand to the accounting records, physical identification methods are not in use and there are no documented policies and procedures to provide guidance to staff.

Recommendations

The Board should:

- *comply with the Department of Health policy and not limit its tender specifications to a specific model or number;*

- *document its purchasing policies and procedures, including travel, and ensure proper controls are in place;*

- *ensure conflict of interest guidelines provide clear direction for employees and Board members; and*

- *implement adequate physical and accounting controls over capital assets.*

Board's Response

- *Henceforth the Board will not limit its tender specifications to a particular model or number.*

- *As part of the Board's exercise in policy review and policy development, purchasing policies and procedures will be documented that will reflect the provision of adequate controls.*

- *Guidelines regarding conflict of interest will be available presently from the Newfoundland and Labrador Health Care Association. These guidelines are being prepared in accordance with draft legislation. When available, these guidelines will be reviewed by the Board and an appropriate Board policy will be written.*

- *Adequate physical and accounting controls for capital assets will be enunciated in policy and procedure. It should be noted that a significant part of our current capital asset holdings were left to the Board from previously existing organizations which were directly administered by government.*

We were given no inventory list or capital asset values at the time of program transfer.

Human Resources

The Board employs approximately 125 permanent and part-time staff. Approximately 58% of these staff are continuing care nurse coordinators (39) and public health nurses (34). For the year ended 31 March 1996, salaries and employee benefits amounted to $5.7 million or approximately 81% of the Board's expenditures excluding home support. The Board has a Human Resources Department which, with the support of individual departments, is responsible for the recruitment, hiring and evaluation of staff, and the monitoring of leave and overtime. Figure 6 summarizes the Board's staff positions as at 31 December 1996.

Figure 6

Central Regional Community Health Board
Staff Positions
31 December 1996

Department	Management	Union	Total
Administration	5	3	8
Continuing Care - Nursing	3	39	42
Continuing Care - Other	3	18	21
Public Health - Nursing	3	34	37
Public Health - Other	2	15	17
Total	16	109	125

Source: Human Resources Department

1. Personnel Activities

A review of the controls over the recruitment, hiring and evaluation of staff, and the monitoring of leave and overtime disclosed the following:

- During 1995 and 1996, the Board held 81 position competitions, of which 9 were external competitions. A review of 8 of the 81 competition files indicated that the files contained supporting documentation; however, support for the screening of applicants was not always documented to indicate reasons for exclusions.

- A sample of 13 employees was chosen to determine if staff are periodically evaluated. Our review indicated that, with the exception of public health nursing, the Board's performance appraisal processes are not providing for the periodic evaluation of staff. More specifically, 5 employees have never had an evaluation performed, 5 have not had an evaluation performed since 1994 or earlier, and the remaining 3 had evaluations performed in 1996. Probationary reviews were not carried out by the Board for any of the 5 employees requiring such reviews. The Board has recently introduced a new policy on performance appraisals.

- During the 1995-96 fiscal year the Board budgeted $25,788 for sick leave relief, while actual costs of $29,329, exceeded budget by $3,541. A review of controls over the approval and monitoring of leave indicated that leave is being properly approved, supported and recorded. The monitoring and reporting of leave, however, is performed manually and as a result it is difficult and time consuming to produce reports.

Recommendations

The Board should:

- *ensure its competition files include supporting documentation on the screening process;*

- *implement its new performance appraisal policy; and*

- *develop a computerized leave system which will provide for the efficient and effective monitoring and reporting of leave.*

Board's Response

- *The Human Resources Department will include the necessary documentation on the screening process for all competitions. However, in most cases the screening of applicants is done primarily from the qualifications required for any given competition. Screening applicants to a desired number for interviews can be very time consuming considering the large number of possible applicants. The value of such documentation, however, is still a useful tool in the screening process.*

- *This policy will be implemented for all employees. Various types of forms are being reviewed for possible use when the policy is implemented.*

- *Such a system will be developed in conjunction with the payroll and financial system as per the MIS guidelines for Community Health. Any system developed for payroll will encompass the monitoring and reporting of leave.*

2. Remuneration of Staff

Some of the Board's remuneration policies and practices did not conform to Government policy:

- During 1995, the Board reclassified some of its management positions and in November 1995 submitted them to Treasury Board for approval. At its 26 January 1996 Board meeting, reference was made to discussions with the Minister of Health indicating that delays had occurred in the approval process and that a freeze had been imposed on all reclassifications of executive and senior management positions. At its 29 February 1996 Board meeting, the Board concluded that, in its opinion, the freeze did not apply to them and made a motion that retroactive pay should be paid at two levels below that submitted to Treasury Board for approval in November 1995. At a special meeting on 5 March 1996, a letter was tabled from the Minister of Health indicating the classification of management and executive positions was a policy decision and requested that the Board not proceed with its motion to reclassify positions and make retroactive payments. At a meeting on 2 April 1996, the Board approved the reclassification of its management staff and retroactive pay totalling $69,302 was paid to 12 management employees in April and July 1996.

- On 3 April 1996, the Board requested the classification review for two new positions of financial assessment officers. Treasury Board classified the positions at a Clerk IV HS-25. The two officers hired were previously working as Social Assistance Workers (Financial Assistance Officers) with the Department of Social Services at the GS-29 level. The Board submitted an appeal to the fact that the positions now are identical to the old position descriptions. The Classification Appeal Board received the appeal 12 August 1996 and the Board was not notified until September 1997 that its appeal was successful. Since their hiring in June 1995, the two staff had been paid at the HS-29 level, although formal notification from Treasury Board of the appeal award was not received until September 1997.

- Section 21 of the Board's Management Personnel Policy states that management employees will receive 5 additional days per year in lieu of overtime compensation for which *"…management employees are frequently obliged to use overtime hours and scheduled time off for travel, and to attend Board and Board Committee meetings, Board functions,…and similar activities."* Treasury Board's Personnel Administration Procedures provides that a Permanent Head may propose a method of compensation of management overtime, other than the guidelines proposed by Treasury Board, to Treasury Board for consideration. Treasury Board has not approved the above policy of 5 additional days in lieu of overtime compensation.

- One senior employee's contract provides for the annual payment of carry forward leave in excess of 35 days. For the calendar year ended 31 December 1996, this amounted to $5,922. Provincial personnel policies require that management employees take at least 10 days annually and that any balance be carried forward, and only leave in excess of 180 days is eligible for payment.

Recommendation

The Board should comply with Government policy.

Board's Response (Summarized)

- *Regarding classification of some of its management positions, the Board is in compliance with government policy.*

  The Board sought advice from and the intervention of other parties not ordinarily part of the classification process, after months had passed and no response received. Amongst those contacted were the Minister and Deputy Minister of Health. The Minister's advice was that he understood there was "some sort of freeze" but was uncertain whether it applied to positions in new health care organizations. His request that we not proceed was not prescriptive so as to disallow the Board its authority to act, and furthermore acknowledged "that such an approach cannot continue indefinitely".

  No notification of a freeze on classifications has ever been received by this organization, so the Board's conclusions at its February 29, 1996 meeting were made in light of this fact rather than in the face of facts to the contrary. Moreover, the Minister's March 5th letter of caution was heeded and the Board waited another month until its April 2nd meeting to see if anyone in Government would even reply to the correspondence sent to them five months before.

  The subject positions have been occupied since October 1994. Classification of the positions, intended to categorize the incumbents' work and pay them appropriately and properly in accordance with what is both just and lawful, was undertaken in November 1995. Purportedly a freeze applied during the interval (not announced to us, and apparently applicable only to some employees in some organizations; for example, classification requests for unionized positions were being processed, and some management positions in other organizations were classified, thus demonstrating a discriminatory form of practice) but was eventually reported in equally as vague a manner as having been lifted.

  This response is being prepared at the end of June 1997. It is more than two and one-half years since people occupying the positions have been assigned their job responsibilities. It is more than one and one-half years since appropriate classifications were determined and ratification was sought from government, in keeping with government's stated policy and procedures. To date there has not been a response to the correspondence sent to government in November 1995.

  The Board took all reasonable measures to stay within the procedures set out. In the absence of any appropriate response, the Board made its decision to act in accordance with what it felt to be its moral and legal obligations to its staff. In this instance, the Auditor General's observations should be directed not toward the Board but toward the relevant offices of government.

- *Incumbents in the position were hired from DOSS to carry out the same duties in respect of the same government program they had previously been supporting. In a government classification system which offers uniformity for common job characteristics, it is reasonable to believe* *the pay should be the same. That is the basis for the appeal and for the decision to leave the incumbents' pay levels at the rate prevailing before classification review by Treasury Board.*

- *The Board has determined that the policy it has enacted serves the mutual benefit of the Board and the affected employees. It is straightforward, clear, economical and appropriate to the work requirements imposed by the Board on its staff. The guidelines proposed in government Personal Administration Procedures exhibit none of these characteristics, and were referenced only as guidelines.*

  To the extent that the Board is empowered to create bylaws and policies for the governance of its responsibilities, this is felt to be an appropriate policy.

- *The Board has expectations of its senior management employee, and there are exigencies of service relevant to the position of a Board CEO which preclude or might preclude the opportunity to take all of the leave allowance in any one year. In each year since inception of the position, the incumbent has taken more than 10 days annually. For any balance in excess of thirty-five (35) days not taken in any year, the time off has been forfeited in exchange for payment so that there is no extra net cost. This works to the advantage of the Board and the public service, as the incumbent is available for duty where temporary replacement during absence is not a practical alternative in the senior-most administrative position.*

  The Board feels this policy is best suited to the requirements it has of its chief executive officer, and has committed contractually to the arrangement.

3.19 Faculty of Medicine of Memorial University of Newfoundland

Introduction

The Faculty of Medicine of Memorial University of Newfoundland was established in 1967. Its purpose is to enhance the health of the people of Newfoundland and Labrador by educating physicians and health scientists, by conducting research in clinical and basic medical sciences and applied health sciences, and by promoting the skills and attitudes of lifelong learning.

Each year approximately 60 students are accepted into the Faculty's four year undergraduate program, with the majority of places reserved for residents of Newfoundland. Figure 1 provides a summary of the number of students, by geographic area, enrolled in the undergraduate program over the last five years. Tuition fees for an undergraduate degree are $6,250 per year for Canadian students and $30,000 per year for non-Canadian students.

Figure 1

Faculty of Medicine
Memorial University of Newfoundland
Undergraduate Enrollment by Geographic Area

Location	1993	1994	1995	1996	1997
Newfoundland	164	166	165	166	167
New Brunswick	37	41	43	33	27
Ontario	8	8	11	13	12
British Columbia	2	4	4	3	3
Alberta	3	2	2	1	2
Nova Scotia	3	3	3	1	1
Quebec	5	4	1	1	0
Saskatchewan	1	1	1	1	0
Prince Edward Island	1	1	1	1	0
United States	0	0	0	5	20
Other Foreign	0	0	0	0	6
Total	224	230	231	225	238

Source: Department of Health

The Faculty also offers programs in post-graduate training (residency), continuing medical education and graduate studies leading to the degrees of Medical Science and Doctorate. Figure 2 provides a summary of the number of students enrolled in all of the Faculty's various programs over the last five years.

Figure 2

Faculty of Medicine
Memorial University of Newfoundland
Student Enrollment by Program

Program	1993	1994	1995	1996	1997
Medical Students	224	230	231	225	238
Residency Program	204	198	202	210	209
Masters Program	35	46	58	64	75
Doctoral Program	21	21	15	13	13
Post-Doctoral Program	5	9	3	2	0
Total	489	504	509	514	535

Source: Department of Health

The Department of Health provides annual operating grants of approximately $17.0 million to the Faculty of Medicine of Memorial University of Newfoundland. Figure 3 provides a summary of the Faculty's revenue and expenditure over the last five years. As shown in Figure 3, for the year ended 31 March 1997, this operating grant of $17.0 million represented 68% of the Faculty's total revenue and 84% of its operating revenues. In addition to the $17.0 million operating grant, the Department also provides annual funding of approximately $8.9 million for the training of post-graduate students. Although this funding is submitted in a separate budget by the Faculty, the funds are actually paid to the Health Care Corporation of St. John's with whom the students are training and thus, this revenue is not reflected in Figure 3.

Figure 3

Faculty of Medicine
Memorial University of Newfoundland
Summary Financial Information
Years Ended 31 March
($ 000's)

Revenue/Expenditure	1993	1994	1995	1996	1997
Operating Grant - Department of Health	$18,515	$17,681	$18,110	$17,724	$17,027
Undergraduate Tuition	486	572	631	890	2,045
Other Operating Revenue	1,400	1,456	1,197	1,536	1,229
Net Operating Revenue	**20,401**	**19,709**	**19,938**	**20,150**	**20,301**
Research Revenue	4,893	4,804	4,706	5,022	4,811
Total Revenue	**25,294**	**24,513**	**24,644**	**25,172**	**25,112**
Salaries -Operating	14,815	14,091	13,989	13,691	13,660
Utilities/Telecommunications	1,363	1,398	1,388	1,234	1,342
External Contracts	1,141	1,373	1,274	1,352	1,289
Fellowships/Scholarships/Grants	744	856	918	1,091	883
Materials/Supplies	775	769	770	920	835
Books/Journals	619	642	712	767	795
Other Operating	844	584	592	625	564
Capital	217	222	107	222	319
Net Operating and Capital Expenditure	**20,518**	**19,935**	**19,750**	**19,902**	**19,687**
Research Expenditure	4,726	4,818	4,755	4,406	4,813
Total Expenditure	**$25,244**	**$24,753**	**$24,505**	**$24,308**	**$24,500**

Source: Financial Records System, Memorial University of Newfoundland

Scope and Objective

We completed our review in October 1997. The objective of this review was to determine whether the Department of Health has an adequate system of accountability over the grants provided to the Faculty of Medicine.

Conclusion

The Department of Health does not have an adequate system of accountability over the grants provided to the Faculty of Medicine. For example:

- The Department is not requesting sufficient information to determine whether the Faculty is effectively spending operating grants for the intended purposes. Such information would include interim and annual audited financial information, and information on program objectives and accomplishments.

- The Department has not performed any audits of the Faculty's operations to assess the adequacy of management systems and controls and compliance with authorities.

Findings and Recommendations

Reporting

As the Faculty receives significant funding from the Department of Health, there should be comprehensive interim and annual reporting by the Faculty to the Department of Health and the House of Assembly. These reports should be relevant and timely and should include not only financial reports, but also reports on the results and costs of the Faculty's programs in relation to plans, objectives and estimated expenditures. Our review of this area indicated the following:

- Although the Faculty submits a detailed annual budget to the Department for its review, the Department does not usually request any interim financial information nor does it request annual audited financial information. Consequently, the Department is not monitoring budget to actual expenditure and does not perform any reconciliation of the Faculty's actual expenditure to the operating grant provided.

- While the annual audited financial statements of Memorial University of Newfoundland are available to the Department, the Department is not always obtaining these financial statements. These financial statements, however, only provide information on the Faculty's total expenditure and provide no detail on the various types of expenditures included in the total.

- Although the Department monitors the global budget of the Health Care Corporation of St. John's on a monthly basis, there is no specific monitoring of the expenditures for the post-graduate training program for which the Department provides approximately $8.9 million in funding. In addition, although the Department receives a copy of the annual audited financial statements for the Health Care Corporation of St. John's these financial statements do not provide any information on the detailed expenditures relating to the post-graduate training of physicians.

- The Faculty of Medicine does not prepare an annual report, and the University is not submitting an annual report to the Lieutenant-Governor in Council as required by the *Memorial University Act*. While the Department does receive a copy of the annual report of the Health Care Corporation of St. John's, the report contains very little information relating to the costs, objectives and achievements of the post-graduate training program. Even in the absence of receiving adequate accountability documents from the Faculty, the Department does not request any information to determine if the operating grants have been effectively spent.

As a result, the Department does not have an adequate system of accountability over annual grants of approximately $17.0 million provided to the Faculty of Medicine and $8.9 million provided to the Health Care Corporation of St. John's.

Auditing

The performance of periodic audits on the Faculty's operations would strengthen a system of accountability by providing an objective and independent appraisal of the adequacy of management systems and controls and compliance with various authorities. Our review indicated that the Department has not performed any audits of the Faculty's operations.

Recommendations

The Department should establish a system of accountability over grants paid to the Faculty of Medicine. This system would include adequate reporting to the Department and the House of Assembly on both the financial and operational performance of the Faculty.

The Department should perform periodic audits of the Faculty's operations.

Department's Response

1. Accountability System

Budgeting System

The Department is aware of the importance of a strong system of accountability over funding provided in the form of grants to the Faculty of Medicine. In this regard, we have established a formal procedure in respect of budget information requested on an annual basis. We provide the Faculty with budget guidelines to be followed in preparation of their annual submission to the Department. Details are requested relating to personnel costs, operating expenditures, revenue details and other information as required. In addition, we meet with officials of the Faculty of Medicine and Treasury Board to review, in detail, their submission.

The Department ultimately provides a funding allocation in the form of a grant to supplement the operation of the School. Other sources of revenue include tuition fees and research grants.

Strategic Plan

The Faculty of Medicine prepares and submits operational and strategic plans for the future operation of the School. This consists, in part, of operational plans submitted during the annual budget process. In addition, the Faculty, in cooperation with the Department, developed a five year strategic plan. Further, the Faculty of Medicine has developed and submitted to the Department clearly defined objectives and goals. These were last submitted to the Department in November 1995. It should also be noted that the School's undergraduate and post graduate program is subject to accreditation on a regular basis by independent external accreditors.

We are continuously reviewing and upgrading our accountability system where necessary and within available resources. For example, as part of the 1998-99 budget process, we have requested an operational plan in addition to the financial information normally required. The key components of the information required, includes the Faculty's mandate and mission, key objectives and strategies and key issues and trends.

We agree that we have not performed any internal audits, to date, on the Faculty's operations. The Department, however, is planning to conduct a detailed financial and operations review in early 1998. This review will be carried out by a working group of two individuals, one with a knowledge of Medical School operations and policies and the other with strong financial skills.

2. Reporting

The Faculty of Medicine is a part of Memorial University and, as such, is subject to the same legislative requirements as the University.

Therefore, the Faculty of Medicine does not produce its own audited financial statements or annual report. Activities of the Faculty would be audited through the annual audit of the University which is carried out by independent external auditors. We do not normally request these audited financial statements as they do not contain detailed financial information but only total expenditure.

We will, in future, request copies of the annual audited financial statements, together with copies of management letter items applicable to the Faculty of Medicine. In addition, we will follow up with the Faculty of Medicine in relation to preparing a section on their operations in the Annual Report of Memorial University.

These comments should be read in conjunction with those outlined above under the caption "Accountability System".

3. Auditing

As referenced above, the Department is planning to conduct a detailed financial and operations review of the Faculty of Medicine in early 1998.

3.20 Western Memorial Hospital Corporation

In our 1996 Annual Report to the House of Assembly, we reported on the results of our review of the Western Memorial Hospital Corporation. The audit identified significant problems at the Corporation, details of which were included in our 1996 Annual Report.

Our review in 1996 focused on the Corporation's financial statements for the year ended 31 March 1995, as audited by a public accounting firm, and subsequent transactions to 31 December 1995. At this time the Corporation was amalgamated with the new Western Health Care Corporation. Subsequent to this review, we requested a copy of the Western Memorial Hospital Corporation's audited financial statements for the period ended 31 December 1995 and copies of the Western Health Care Corporation's audited financial statements for the period ended 31 March 1996 and the fiscal year ended 31 March 1997. These financial statements would indicate the Corporation's surplus or deficit for each period, as well as the financial position at the end of each period.

Of particular interest is the extent to which the Corporation's debt has increased or decreased from the $4.5 million as at 31 March 1995, the amount of the Corporation's accumulated deficit, and the amounts owing from third parties and associated funds. During a Public Accounts Committee meeting on 9 September 1997, officials of the Corporation indicated that their line of credit was at $13.0 million.

We have been informed by officials of the Corporation and the Department of Health that audited financial statements for the period ended 31 March 1996 and the fiscal year ended 31 March 1997 are not available. It concerns us that given the significance of issues raised during our 1996 review, the audited financial statements of the Western Health Care Corporation for the period ended 31 March 1996 and the fiscal year ended 31 March 1997 are still not available as at 31 October 1997. In our opinion, without timely audited financial statements, the Corporation is not being accountable for the expenditure of large amounts of public funds and as a result is not fulfilling its responsibility.

Board's Response (Summarized)

The March, 1996, statements reflect the first three months of operations of the new Corporation. It should be noted that the Board's acceptance of the March, 1996, statement is subject to an adjustment in the vacation pay accrual. Such adjustment will not affect the funded position of the Corporation, as vacation pay accrual being unfunded, is established to conform to Generally Accepted Accounting Principles.

The March, 1997, statements are currently in draft form and are in the process of being audited by the Corporation's external auditor. Availability of the statements for review by the Board of Western Health Care Corporation is scheduled by the end of December, 1997, with the review for acceptance at the January, 1998, Board meeting.

With the consolidation of operations and related accounting/financial activities and the particular staffing issues faced by the Corporation, there were some delays encountered in the production of the March, 1996 and March, 1997 statements; however, the schedule for completion was developed by the accounting group and was communicated and approved by the Board and the Department of Health officials. This schedule has been closely monitored weekly by the various groups and is essentially on track with the production of 1997 statements, as outlined above.

We are quite confident that with the backlog of statement production now under control and with stability of professional accounting staff, the required reports for fiscal year 1997-98 will be available within the prescribed time frame to those agencies to whom we are required to report.

3.21 Health Care Corporation of St. John's

On 2 December 1996, the Public Accounts Committee by resolution requested the Auditor General to conduct an inquiry into and report on the financial affairs of the Health Care Corporation of St. John's.

Section 16(1) of the *Auditor General Act* provides the Auditor General with the authority to accept such an assignment provided it does not interfere with the Auditor General's primary responsibilities under the Act. We commenced our review in January 1997 and forwarded our report to the Public Accounts Committee on 29 August 1997. On 4 September 1997, the Chairman of the Public Accounts Committee tabled the Report in the House of Assembly.

Scope

Our review of the Health Care Corporation of St. John's focused on the following areas:

- Board Governance
- Management Practices
- Human Resources
- Purchasing
- Capital Assets
- Consulting and Professional Services
- Legislative Compliance
- Performance Indicators

In addition to the above eight areas, we also reviewed the history of the Corporation in relation to the restructuring of health care delivery in the St. John's region commencing with the 1984 *Report of the Royal Commission on Hospital and Nursing Home Costs.*

Restructuring of Health Care Services

There are significant financial implications associated with the restructuring of health care services in the St. John's region which is estimated to cost $130 million. The Health Care Corporation of St. John's anticipates operational savings of $20.52 million annually from the restructuring of health care services, of which $13.2 million will be used to finance the $130 million in capital costs, while the remaining $7.32 million will be redirected back into health care programs.

We have three major concerns regarding the completeness and accuracy of information relating to the planned restructuring of health care services. These can be summarized as follows:

- The $130 million does not include all costs relating to the restructuring. For example, it does not include the costs of acquiring the St. Clare's Mercy and Salvation Army Grace General Hospitals which were purchased in 1994 and 1996 respectively. With respect to the St. Clare's Mercy Hospital, Government will pay $6.5 million financed over 20 years, with total principal and interest payments of $15.0 million. With respect to the Salvation Army Grace General Hospital, Government will pay $4.765 million financed over a six-year period, with total principal and interest payments of $6.880 million. These costs are being charged to the Department of Health.

  There are also other significant costs not included in the $130 million such as the costs of closing the Salvation Army Grace General Hospital and the Dr. Charles A. Janeway Child Health Centre, the moving expenses to the new and renovated buildings, and the cost of capital equipment for the newly constructed and renovated facilities.

  It is important that all costs of the restructuring be identified and be cumulative so that the total cost will be known to Government, the Board of the

Health Care Corporation of St. John's, and the taxpayers.

- The Corporation has estimated that the restructuring of health care services will realize operational savings of $20.52 million annually.

  While annual savings of $20.52 million have been estimated, it is unclear as to what overall funding level has to be provided by the Government to the Corporation to yield the annual savings of $20.52 million. It is also unclear as to how these savings are going to be identified and measured to ensure they have been realized. This is especially significant since a portion of the savings are supposed to finance the capital cost of the project.

- The estimated cost of restructuring has changed several times. The initial estimate to restructure the health care services in the St. John's region was $300 million in 1989. This was revised to $100 million in July 1996 and to $130 million in June 1997.

In summary, the Corporation anticipates that the cost of restructuring health care services in the St. John's region will result in a surplus in that the estimated cost of $130 million would be financed from annual savings of $20.52 million with any residual savings to be redirected back into health care programs. Since the $130 million does not include all costs relating to the restructuring and has changed several times, it is possible that annual savings may not be sufficient to fund all costs relating to the restructuring of health care services in the St. John's region. Furthermore, it is not clear how the estimated savings of $20.52 million will be identified and measured.

Once the restructuring of health care services in the St. John's region has been completed, it is important to know the actual costs of the restructuring and the actual savings realized, to determine the net cost or net savings to Government. Completion of the restructuring project was originally estimated for December 1998; however, as of June 1997, this date had been extended to December 1999.

Recommendations

The actual costs of restructuring should be recorded separately, regardless of whether the costs are incurred by the Health Care Corporation of St. John's or a department of Government. This will identify the actual costs of restructuring which can then be compared to the costs which were originally estimated.

Government and the Health Care Corporation of St. John's should:

- *determine the base level of funding required to generate annual savings of $20.52 million; and*
- *determine how savings are going to be identified and measured.*

The Corporation's Financial Position

The Corporation incurred a deficit of $4.8 million in 1996-97. It is also projecting deficits of $6.8 million in 1997-98 and $10 million in 1998-99. As a result, the cumulative deficit of the Corporation for the three-year period is expected to be $21.6 million.

The Corporation was also experiencing problems in maintaining sufficient funds to meet its current obligations. Its cash flow problems are caused primarily by a combination of its deficit, its uncollected accounts, and the timing of the last monthly budget advance from the Department of Health. The Corporation's overdraft was highest in April 1997 and April 1996. Bank overdrafts for these two months were $10.0 million and $12.1 million respectively.

Financial Reporting and Budget Monitoring

As part of its reorganization and restructuring, the Corporation merged six individual organizations which had their own financial and information systems. As part of this process, the Corporation significantly changed its budgets and financial reporting structure in 1996-97 from one which was initially prepared by individual functions within the six individual hospital sites to one prepared by individual programs for the entire Corporation.

As a result, numerous changes were made to both the Corporation's budgeted and actual revenues and expenditures during 1996-97. We had initially intended to compare the Corporation's original budget, the final revised budget, and the year-end revenues and expenditures to identify the reasons for the Corporation's deficit of $4.8 million. However, since the information required to complete this analysis was not readily available and because of the frequency and significance of the changes made to the original budget, such an assessment was outside the scope of our review.

In addition, we had also intended to compare salary expenditures for several years with the original and revised salary budgets for those fiscal years to determine whether total salaries paid by the Corporation had increased or decreased over the period. Given the significance of the Corporation's salary expenditures, and the three downsizing initiatives which occurred over the past three years, this information would indicate whether the total salaries paid by the Corporation had in fact decreased. However, we were unable to obtain the Corporation's original salary budget for 1996-97, and the original salary budget and actual salary expenditures for 1995-96.

In March 1997, a Budget Review Committee comprised of representatives from the Corporation, the Department of Health and the Treasury Board Secretariat was established to carry out a similar exercise and conduct a comprehensive review of the Corporation's 1996-97 budget, review its projected costs, identify clinical impacts and prepare a three year budget forecast.

We look forward to the report of the Committee which is expected to be completed near the end of 1997.

Amounts Owing to the Corporation

As at 31 March 1997, the Corporation had accounts receivable totalling $18.7 million, comprised of $7.9 million from patients, $7.6 million from the Provincial Government, and $3.2 million from other sources. Our review indicated that amounts owing to the Corporation are not being collected on a timely basis. For example, $5.6 million of the $7.9 million, or 70% of total patient receivables are over 30 days old. The Corporation also wrote off uncollectible accounts of $633,422 from 1 April 1995 through 31 December 1996 and, at the time of our review, was in the process of finalizing an additional write-off. In November 1996, the Corporation retained the services of a collection agency to assist it in the collection of delinquent accounts. Any amounts owed the Corporation which are determined to be uncollectible, are funded 100% by the Department of Health. As a result, funding by the Department could be decreased if the Corporation collected amounts owing to it.

Purchasing

We reviewed 209 purchases with a dollar value of $29.4 million to determine compliance with the *Public Tender Act*.

The Corporation did not tender for 79 of these purchases with a dollar value of $9.7 million as they were acquired from "the only available source." These 79 purchases along with another 91 purchases were reported to the Minister of Works, Services and Transportation, between 1 April 1995 and 31 December 1996, as being available from only one source. However, our review disclosed instances where there was insufficient information in the Corporation's files to fully support why the purchases were not publicly tendered.

Many factors can influence the decision that a particular item or service is available from only one source. For example:

- Parts, supplies, or services required for a particular piece of equipment may be available only from the supplier who provided the original piece of equipment.

- Particular specifications may limit the item or service to only one supplier. However, overly restrictive specifications may also prevent competitive bidding and result in a sole-source purchase.

- The evaluation of a particular piece of equipment may have included a cost-benefit analysis of using particular reagents and chemicals in conjunction with that equipment.

- The use of certain medical supplies or equipment involves the training of all professional staff in their application. Changing supplies or equipment increases the probability of error.

Given the frequency of sole-source purchases by health care boards and the significance of the dollar value involved, it is possible that equipment, supplies and services may be purchased for many years from the same supplier as a "sole-source" purchase.

Recommendation

The Department of Health and the Government Purchasing Agency should conduct periodic reviews of "sole-source" purchases made by health care boards. Such reviews should determine the validity as to whether these purchases were, in fact, available from only one source. Such reviews should determine, among other things:

- *whether specifications were overly restrictive;*

- *whether the purchase was based on product standardization rather than a sole source of supply; and*

- *whether an identical or similar product is available from other sources.*

It is not the intent of the Public Tender Act *that certain items be acquired over many years from one source which has been designated as the "only available source." "Tender Specifications" should be prepared for all items and services to be acquired. Products and services change and improve over time and periodic re-evaluation of the market is a sound business practice.*

3.22 Newfoundland Cancer Treatment and Research Foundation

Introduction

The Newfoundland Cancer Treatment and Research Foundation was established in 1971 to conduct a program of cancer diagnosis, treatment and research. The Foundation is governed by an eight member Board of Trustees which is appointed by the Minister of Health. The Foundation operates province wide through clinics and treatment centres within existing health care facilities and also operates the Dr. H. Bliss Murphy Cancer Centre in St. John's. For the year ended 31 March 1997, total patient visits for the major clinics were reported at 14,598. For this same period, the Foundation reported revenue of $7.8 million, of which 90% was received from the Province, and expenditures of $8.7 million.

On 2 December 1996, the Public Accounts Committee of the House of Assembly passed a resolution requesting that we conduct a review of the financial affairs of the Foundation. Our review covered the period from 1 April 1995 to 31 March 1997. Our report on this review was presented to the Public Accounts Committee on 1 December 1997 and was tabled in the House of Assembly on 2 December 1997. The report addressed the following areas:

- Management Practices;
- Human Resources;
- Purchasing;
- Capital Assets;
- Consulting and Professional Services;
- Legislative Compliance, and
- Board Governance.

Findings

Management Practices

The Foundation has a combined fund deficit of $957,000 as at 31 March 1997, which includes accumulated vacation and severance pay of $507,000. The Foundation does not have any authority to incur a deficit.

The Foundation's annual budget, which provides for the allocation of funding to the various programs, is not approved by the Board.

The Foundation's annual report is not an accountability document as it is not issued on a timely basis and provides no linkage of results with objectives. In addition, this report is not tabled in the House of Assembly.

Human Resources

The Foundation appoints newly recruited physicians at salary levels in excess of that authorized under the *Conditions of Employment for Salaried Physicians in Newfoundland and Labrador* without obtaining the required approval from the Department of Health.

Purchasing

We reviewed 23 purchases over $7,500, with a dollar value of $971,511, to assess compliance with the *Public Tender Act*. One contract, in the amount of $417,500, was not awarded to the lowest bidder meeting tender specifications. In addition, there was no public tender called for another two contracts totalling $19,213. There were no exception reports filed with the Minister of Works, Services and Transportation for these three contracts and thus, these exceptions were not reported in the House of Assembly as required by the Act.

The Foundation did not tender another 11 purchases, totalling $259,250, which were all greater than $7,500. However, for these 11 purchases, the Foundation filed a public tender exception report with the Minister of Works, Services and Transportation. Ten of these reports indicated that the vendor was a sole-source supplier; however, for two of these purchases totalling $102,063, other sources were available and a public tender was therefore required. The other public tender exception report related to a moving company where it was stated that rates did not vary. However, quotations had been obtained and the supplier with the lowest quote was awarded the contract.

We also reviewed 10 purchases under $7,500 where the *Public Tender Act* requires the purchaser to obtain quotations from 3 suppliers or establish for the circumstance a fair and reasonable price for the goods or services. The Foundation did not obtain quotes for 1 of these 10 purchases.

Board expenditures of $80,211 were charged to the operating account which is funded by the Department of Health.

There is a lack of segregation of incompatible duties over the accounting services provided by the Health Care Corporation of St. John's on behalf of the Foundation. In addition, monitoring of expenditures by the Foundation is limited to a monthly review of variance reports. As a result of these weaknesses over the approval and monitoring process for expenditures, inappropriate or inaccurate expenditures may not be detected.

Capital Assets

There is no capital asset ledger and annual physical counts are not performed. As a result, there is currently no accurate account of the Foundation's capital assets.

The Foundation does not have adequate insurance coverage over its capital assets due to recent significant capital assets acquisitions.

Consulting and Professional Services

The Foundation has not established any policies for the hiring of external consultants. Of the five consulting engagements reviewed, totalling $95,095, there were no proposal calls for four of these engagements. In addition, there were no signed written contracts for any of the engagements.

Legislative Compliance

The Foundation has entered into several agreements with universities, hospitals and individuals without obtaining the approval of the Lieutenant-Governor in Council as required under the *Newfoundland Cancer Treatment and Research Foundation Act*.

The Foundation may only invest money in investments authorized under the *Trustee Act*. The Foundation invested $58,487 in a mutual fund which is not an authorized investment under the *Trustee Act*.

Board Governance

Our review disclosed instances where there was no record that the Board was informed of certain activities of the Foundation and other committees of the Board.

The Board often does not have a full membership as appointments to the Board are often delayed for a considerable period.

The Foundation is developing performance indicators that could be used in assessing its performance in relation to predefined objectives.

Department of Environment and Labour

3.23 Workers' Compensation Commission

Introduction

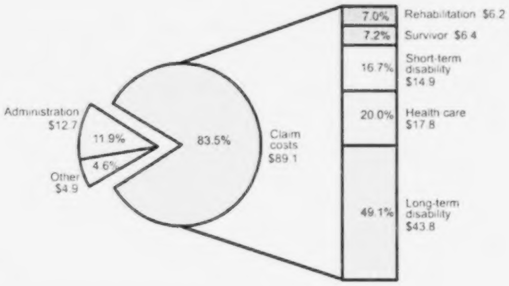
The Workers' Compensation Commission was established in 1951. In accordance with the *Workers' Compensation Act* and its supporting regulations, the Commission is responsible for administering programs for the payment of benefits to injured workers and dependants, rehabilitation of injured workers, setting rates and collecting employer assessments, and making investments necessary to ensure adequate funding for services. The Commission is governed by a seven member Board comprised of a chairperson, two employer representatives, two worker representatives and two members at large. In addition, there are two ex-officio members - the Chief Executive Officer of the Commission and the Assistant Deputy Minister of the Department of Environment and Labour responsible for Occupational Health and Safety. The Board is appointed by the Lieutenant-Governor in Council. The Commission reports to the House of Assembly through the Minister of Environment and Labour.

The Commission is funded through employer assessments and income earned on investments maintained in an investment portfolio. Of the $122.5 million in total revenue for the 1995 calendar year, 75.5% or $92.5 million came from regular assessments on employers' payroll to meet current year obligations, 10.9% or $13.4 million came from an additional assessment on employers' payroll to amortize the unfunded liability and 13.6% or $16.6 million came from the Commission's investment portfolio. There are approximately 13,000 registered employer accounts representing approximately 180,000 workers covered by Workers' Compensation programs.

Monies received form an Injury Fund which is used to pay all the expenses of the Commission, expenses of the Department of Environment and Labour for the Occupational Health and Safety Division, the Employer and Worker Advisors, the Statutory Review Committee and all expenses of the Department's Workers' Compensation Review Division. Figure 1 provides details on the Commission's total expenditures of $106.7 million for the year ended 31 December 1995.

Figure 1

Workers' Compensation Commission Expenditures
Year Ended 31 December 1995
($ Millions)



Source: Audited Financial Statements

Scope and Objectives

Our review focused on transactions pertaining to the fiscal year ended 31 December 1995, and was completed in May 1996. Due to staff lay-offs in 1996, resulting from Government's fiscal restraint program, and staff turnover, the report was not finalized for inclusion in our 1996 Annual Report. Because the report contains historical information on the Commission which may be of interest to the Members of the House of Assembly, it is included in this year's report. The objectives of our review were to:

- determine whether there is an adequate accountability framework in place for reporting to the House of Assembly and that Board governance processes are adequate;

Department of Environment and Labour

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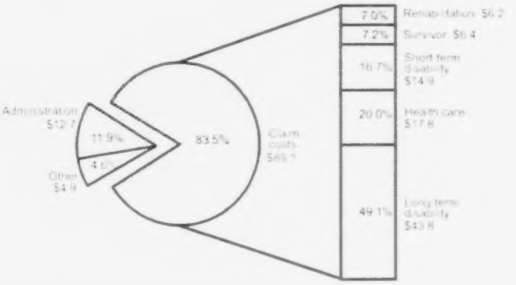
($ Millions)



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- determine whether there is an adequate accountability framework in place for reporting to the House of Assembly and that Board governance processes are adequate;

- review measures taken to address the unfunded liability of the Commission;
- assess management practices in the areas of planning, organization, capital asset management and security;
- determine compliance with legislation; and
- compare compensation and other practices to those of Government.

Information was obtained from discussions with management and Board governance surveys completed for our Office. We also reviewed internal documents including policy and procedures manuals, minutes of meetings, correspondence, and reports prepared by internal staff and external consultants. As well, testing of transactions was performed as required.

Conclusions

The Commission has taken initiatives to strengthen its accountability to the House of Assembly. For the 1995 calendar year, the Commission prepared a report to demonstrate its performance relative to predetermined targets. The report was a good initial effort in providing more useful information to the House of Assembly; however, improvements are required so that all strategic objectives identified by the Commission have predetermined targets against which actual performance is reported.

In 1991, the Commission prepared a financial strategy to address its unfunded liability, which, at that time, had increased to $176 million. There were two significant initiatives implemented to address the unfunded liability. First, a special assessment, currently totalling $13 million annually, was put in place so that the unfunded liability could be fully funded by 2012 and secondly, to reduce the cost of workers' benefits, the income replacement ratio was reduced from 90% to 75% for the first 39 weeks and to 80% after 39 weeks. As at 31 December 1995, the unfunded liability was $117 million.

As a result of structural changes at the Commission, the staff complement increased from 166 in 1990 to 223 in 1995. Also, salary costs increased from $6.1 million in 1990 to $8.8 million in 1995.

Physical security at the Commission requires improvement.

The Commission is providing loans to employees, at prime plus one percent, for the purchase of computer equipment. During 1995, $98,000 in loans were advanced to employees for computer loans. Also in 1995, the Commission provided interest free loans totalling $1,300 to employees to cover the costs of tuition and books for career related training. There is no authority in the *Workers' Compensation Act* to provide these loans.

With minor exceptions, the Commission was generally in compliance with the *Public Tender Act* and *Regulations*.

The Commission does not have formal guidelines for the hiring of external consultants. Some of the consultants engaged by the Commission have been renewed on an annual basis without any public call for proposal.

Findings and Recommendations

Accountability

Boards of Crown agencies have an obligation to fulfil their responsibilities and to account to Government for their performance. The issue of accountability focuses on key aspects of performance relative to intended results. It provides a means to demonstrate to the House of Assembly and to other stakeholders, including employers and insured workers, that the Commission is doing an appropriate job in the discharge of its responsibilities.

An important component in the accountability process for the Commission is the annual report to the Minister and the House of Assembly. Section 12 of the *Workers' Compensation Act* requires the Commission to present a report before June 1 on its transactions for the preceding calendar year. The Minister in turn is required to present the report to the House of Assembly within 15 days of receipt or within 15 days of the House opening if it is not in session upon receipt.

We reviewed the reports made to the Minister for the calendar years ended 1994 and 1995. Both reports included the Commission's vision statement, the audited financial statements, highlights of Commission activities for each year and selected statistical information.

Improvements were made to the Commission's report for 1995 in that the focus of information contained in the report was to demonstrate the performance of the Commission and improve its accountability. The report was tabled in the House of Assembly in June 1996 and was the Commission's first effort in preparing an accountability document.

While the 1995 Report focused on four areas, only two areas had established predetermined targets. Accountability would be improved if predetermined targets were established for each area and the actual results reported against them. Also, accountability would be further enhanced by disclosing the financial impact of major changes (such as the reduction in the income replacement ratio), having an independent audit opinion on the accountability document, and including the original and revised budget for comparison against actual results.

Recommendation

The Commission should continue its efforts in improving its Annual Report as an accountability document and establish predetermined targets for all its objectives.

Commission's Response

The Annual Report for the Commission for 1997 will continue to be used as the Commission's main accountability document for the public.

Board Governance

The Board of the Workers' Compensation Commission is appointed by the Lieutenant-Governor in Council. The current composition of the seven member Board includes the chairperson, two employer representatives, two worker representatives and two members at large.

At present, no selection criteria exists for the appointment of members to the Board. The only requirement in the Act is that there be equal employer and employee representation. The establishment of well-defined criteria would serve to define desirable skills, knowledge, experience and commitment necessary for Board members to operate effectively in their respective roles to assist the Commission in its consultative role in the selection process.

Recommendation

A Board member profile should be prepared to assist in the selection of new Board members.

Commission's Response

The appointment of members to the Board is governed by section 4(1) of the Act and is the prerogative of the Minister.

Unfunded Liability

Prior to 1984, the Commission had a disability system in place which compensated injured workers based upon the nature of their disability. In 1984, the Commission implemented a wage loss system which compensated workers on an ongoing basis for their loss of income from a disability.

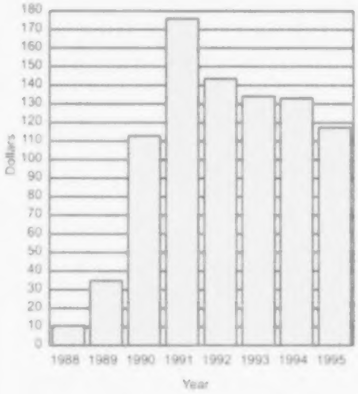
Initially, the Commission found that, due to a lack of historical claim information, it was not able to reasonably estimate the future costs associated with injuries which had already occurred.

Figure 2 shows the unfunded liability from 1988 to 1995 as reported in the Commission's audited financial statements. Major changes can be summarized as follows:

- In 1989, an actuarial study was carried out to estimate the future liability for injuries that had occurred up to that time. As a result, the unfunded liability increased from $13 million in 1988 to $35 million in 1989.
- In 1990, another actuarial study was performed and resulted in a further adjustment of the unfunded liability to $113 million, an increase of $78 million. Of the $78 million, $51 million resulted from a change in accounting policy whereby indexing was applied to the liability for outstanding claims.
- In 1991, the unfunded liability increased by $62 million, $47 million of which resulted from an actuarial adjustment. The remaining $15 million was due to the inclusion of reserves in the calculation of the unfunded liability.
- In 1992, the unfunded liability decreased by $33 million caused, for the most part, by changes in legislation which resulted in reduced benefits to injured workers.

Figure 2

Workers' Compensation Commission
Unfunded Liability
31 December
($ Millions)



Source: Audited Financial Statements

In 1991, the Commission prepared a financial strategy to address the problem of the increasing unfunded liability which at that time had increased to $176 million. The Commission found that revenues received from employer assessments had not kept pace with growing program costs and consequently the unfunded liability of the Injury Fund was continuing to grow.

1. Financial Strategy

Initiatives identified by the Commission to address the financial position of the Injury Fund included:

- To eliminate the unfunded liability gradually while meeting current year costs and future costs related to injuries occurring in a given year, the method of calculation of the Commission's revenue target was changed. Commencing in 1992, the amount to be recovered from assessments each year was calculated so as to fully fund current year accidents and amortize the unfunded liability. The amortization was calculated over a 20 year period with a target date of 2012 for the Injury Fund to be fully funded.

- To remove financial disincentives to return to work and reduce costs, the Commission recommended a reduction of the income replacement ratio used to determine benefits from 90% to 85% of net income. There had been cases where, due to such things as income tax exemptions, workers were better off financially receiving compensation benefits rather than returning to work. Legislation enacted 1 January 1993 changed the replacement ratio to 75% of net earnings for the first 39 weeks receiving benefits and to 80% of net earnings after 39 weeks.

- To introduce greater responsiveness and stability to assessment rates, beginning in 1992, the overall annual revenue requirement was allocated among employer groups, based upon indicators of relative claim costs for each group over a specified period of time.

- To improve equity among employers in the same rate group and to increase employers' awareness of the costs of injuries, experience rating was implemented. The system is revenue neutral with merit reductions in employer assessment rates of up to 20% for some employers in a particular rate group being offset by demerit surcharges of up to 20% for some employers in that rate group. The system is intended to be an incentive for employers to control accident costs and currently covers over 4,000 employers.

- To improve benefit program delivery, shorten delays and get claimants back to work sooner, there have been major organizational changes particularly in the Compensation Services division with the move to an integrated case management approach. The previous functional divisions were set up based on type of benefit payment (temporary earnings loss, rehabilitation, and extended earnings loss). All are now handled by a single Case Manager as an injured worker's case flows through the system.

2. Impact of Financial Strategy Initiatives

In 1992 and prior years, the Commission's expenses exceeded revenues. Excluding the effect of the actuarial adjustments and legislative changes, commencing in 1993 and continuing through to 1995, reported revenues have exceeded expenses at an increasing rate. The effect has been a continual reduction of the unfunded liability. Figure 3 indicates the revenues, expenditures, operational surplus (deficiency) and unfunded liability of the Commission from 1991 to 1995.

Figure 3

Workers' Compensation Commission
Revenue, Expenditures, Operational Surplus (Deficiency) and Unfunded Liability
Years ended 31 December
($ 000's)

Year	1991	1992	1993	1994	1995
Revenue					
Assessments	$ 96,910	$ 92,418	$ 86,856	$ 92,435	$ 92, 464
Unfunded liability assessment	-	-	14,500	13,400	13,400
Investment Income	10,462	10,249	12,782	11,872	16,635
Total Revenue	**107,372**	**102,667**	**114,138**	**117,707**	**122,499**
Expenditures - Note 1					
Claim costs					
Current year injuries	77,591	66,020	51,531	56,294	52,736
Prior year's injuries	64,508	41,583	31,445	24,713	26,342
	142,099	107,603	82,976	81,007	79,078
Administration	9,402	10,191	11,447	12,001	12,719
Other	2,982	3,204	3,792	4,181	4,882
Total Expenditures	**154,483**	**120,998**	**98,215**	**97,189**	**96,679**
Surplus (deficiency) from operations - Note 1	$ (47,111)	$ (18,331)	$ 15,9923	$ 20,518	$ 25,820
Unfunded liability	$(176,012)	$(143,462)	$(134,103)	$(132,989)	$(117,228)

Source: 1995 Annual Report
Note 1: Before actuarial adjustments and legislative changes

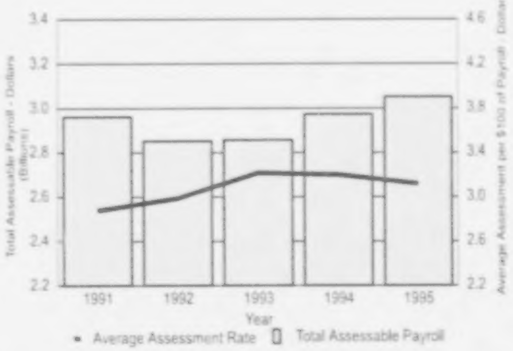
(a) Revenues

The Commission has been able to increase revenues through an additional assessment ($13,400,000 - 1995) on employers' payroll to amortize the unfunded liability. Figure 4 shows the average assessment per $100 of payroll, which includes the additional assessment that was first applied in 1993, and the total assessable payroll of all employers participating in Commission programs.

The additional assessments which were first applied in 1993 to amortize the unfunded liability have created additional surplus funds which have been invested, resulting in increased investment income. Figure 5 provides information on the Commission's investment portfolio and investment income.

Figure 4

Workers' Compensation Commission
Average Payroll Assessment Per $100 of Payroll and Total Assessable Payroll
Years ended 31 December



Source: 1995 Commission Annual Report

Figure 5

Workers' Compensation Commission
Investment Portfolio and Investment Income
Years ended 31 December
($ 000's)

Year	1991		1992		1993		1994		1995	
	Carrying Value	Market Value	Carrying Value	Market Value	Carrying Value	Market Value	Carrying Value	Market Value	Carrying Value	Market Value
Investment Balance	$90,134	$93,291	$98,194	$102,097	$115,635	$131,655	$155,829	$157,190	$195,417	$215,568
Investment Income	$10,462		$10,249		$12,782		$11,872		$16,635	

Source: Audited Financial Statements

(b) Expenditures

Claim costs have been reduced as a result of legislated changes such as a reduction in the income replacement ratio (from 90% to 75% for the first 39 weeks and to 80% after 39 weeks) which reduced benefits and a reduction in the number and duration of claims. Figure 6 provides information on the number, duration and cost of claims.

Figure 6

Workers' Compensation Commission
Number of Accepted Claims and Average Weeks Duration for Temporary Earnings Loss (TEL) Claims and Total Claim Costs
Years ended 31 December

Year	Number of accepted claims	Average weeks TEL per injury		Total claim costs - Note 1
		Current year injuries	Prior year injuries	($Millions)
1991	17,838	6.00	22.46	142.1
1992	15,255	5.92	21.83	107.6
1993	12,808	5.23	19.54	83.0
1994	13,883	5.50	21.07	81.0
1995	12,854	4.99	16.91	79.1

Source: 1995 Commission Annual Report
Note 1: Before actuarial adjustments and legislative changes

Administration expenditures have increased 35% from $9.4 million in 1991 to $12.7 million in 1995 primarily due to the hiring of 57 additional staff. Figure 7 shows the Commission's staff complement and salary and benefits expense from 1990 to 1995.

Figure 7

Workers' Compensation Commission
Staff Complement and Salary and Benefits Expense
Years ended 31 December
($ 000's)

Year	Total Staff Complement	Change from Prior Year	Salaries And Benefits	Change from Prior Year
1990	166		$6,081	
1991	179	13	$6,718	$637
1992	187	8	$7,123	$405
1993	217	30	$7,829	$706
1994	217	0	$8,215	$386
1995	223	6	$8,793	$578
Total Change		57		$2,712

Source: Workers' Compensation Commission

As a result of initiatives taken by the Commission to increase revenues and decrease expenditures, the unfunded liability has decreased from $176 million in 1991 to $117 million in 1995.

Management Practices

1. Planning

In 1994, the Commission developed a vision statement and an operational plan. In 1995, the Commission developed its first formal strategic plan and accompanying operational plan. The planning process involved input from Board members, management, staff and key external stakeholders.

The following observations were made as a result of a review of the planning process for the 1995 year:

- The Commission identified seven strategic objectives; however, with the exception of the goals of improving client services and reaching a desired funding level for 1995, the remaining five strategic goals did not contain quantifiable criteria against which they could be measured. As a result, the Commission could not objectively determine how well its goals were met for 1995.
- Annual strategic planning efforts focus primarily on short-term objectives and do not extend beyond the current period. There is, however, a long-term financial strategy and a five-year information systems strategy.

Recommendations

The Commission should establish predetermined measurement criteria for all identified strategic objectives.

The Strategic Plan should include strategic initiatives which extend beyond the current period.

Commission's Response

All annual objectives established by the Commission for 1997 have predetermined targets against which actual performance is reported. Performance for 1997 will be measured against these predetermined key indicators or benchmarks and reported to the public via the Annual Report.

The Commission has focused on long term objectives as it reorganized and changed its basic method of operation in the last few years, e.g. 20 year amortization of unfunded liability and five year information technology strategy.

2. Organization

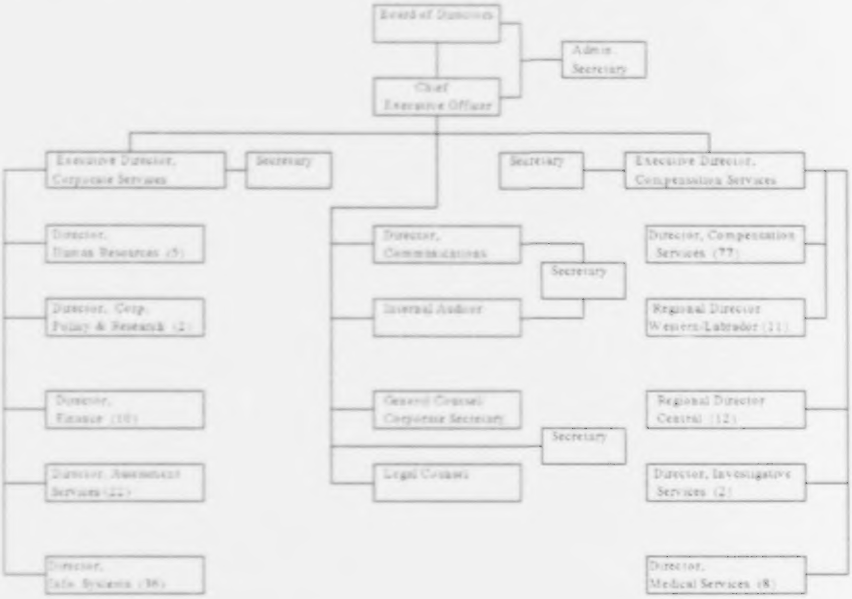
The Commission has made major organizational changes in the delivery of compensation services as it moved from a functional type of payment system to a more integrated case management system. Changes occurring during 1995 included the combining of 17 Rehabilitation Councillor positions with the existing 18 Case Manager positions to facilitate a single Case Manager being responsible for the same case as it flows through the compensation system.

Our review indicated that the organization has been apportioned into manageable units with managers having a reasonable span of control. A Hay System review of position classifications was performed during 1995. During our review, we found that all position descriptions were current and adequately outlined major roles, responsibilities and relationships. The position descriptions were signed by the incumbents and approved by senior management. Management committees, in areas including finance, investment, and compensation services, have been established with clear mandates and terms of reference.

Our review also indicated that the total staff complement, including permanent and temporary positions, increased from 166 positions in 1990 to 223 positions in 1995. Figure 8 shows the Commission's organizational structure as at 31 December 1995.

Figure 8

Workers' Compensation Commission
Organizational Structure
31 December 1995


Board of Directors
Admin. Secretary
Chief Executive Officer
Executive Director, Corporate Services
Secretary
Secretary
Executive Director, Compensation Services
Director, Human Resources (5)
Director, Corp. Policy & Research (2)
Director, Finance (10)
Director, Assessment Services (22)
Director, Info. Systems (38)
Director, Communications
Secretary
Internal Auditor
General Counsel/ Corporate Secretary
Secretary
Legal Counsel
Director, Compensation Services (77)
Regional Director Western/Labrador (11)
Regional Director Central (12)
Director, Investigative Services (2)
Director, Medical Services (8)

Source: Workers' Compensation Commission
Note: The number of permanent subordinate staff reporting to the position is shown in brackets. During 1995, the Commission employed 17 casual staff (not reflected in the chart) for a total staff complement of 223.

3. Capital Asset Management

The Commission implemented a new computerized capital asset tracking system during 1995 to track approximately $13.5 million of capital assets. This system, administered by the Commission's Finance Department, allows it to track individual assets by departmental area and to depreciate the assets on an individual basis. The Commission has developed a manual to provide guidance in the operation of the computerized system; however, policies and procedures have not been documented for the control and use of capital assets.

Recommendation

The Commission should document policies and procedures for the control and use of capital assets.

Commission's Response

Further development of a written procedure for the control and use of capital assets will be developed and implemented by the fourth quarter of 1997.

4. Security

The Commission is currently leasing floor space on the third floor of the Workers' Compensation Building to a tenant and, as a result, access to the building can not be restricted solely to those dealing with the Workers' Compensation Commission. Door locks having numbered access codes are used to restrict access to areas of the building used by the Commission. Furthermore, there are documented procedures for after hours security which is performed by a private firm.

There is also an Oath of Office which deals with the use of Commission records and emphasizes the confidentiality of Commission information. Every employee is required to sign this Oath of Office upon commencement of employment at the Commission. Our review of security at the Commission identified the following:

- There is no security policy and procedures manual in place at the Commission outlining such things as access to case files and where they should be stored when not in use.
- With the exception of the computer room and records management area, the same access code is used for all Workers' Compensation Commission areas.
- The lock access code was not changed during 1995 even though there were staff who left the Commission during the year. We note that the access code was changed during February 1996 and staff indicated that there are plans to change the code on a regular basis in the future.
- Both cleaning staff and private security have unsupervised access to the Compensation Services area after normal working hours. All Commission staff use the same access code which also permits them access to the Compensation Services area. Consequently, unauthorized access to case file information could occur. As more files are imaged and become a part of the computerized system the issue of manual case file information may become less important.
- Access to the area used for interviews with injured workers is not restricted. The area used for these interviews consists of open cubicles which present difficulties with respect to confidentiality of case information discussed.

Recommendation

The Commission should strengthen its security procedures.

Commission's Response

Policies and procedures will be developed by the end of 1997 to continue to strengthen the building's security procedures.

Access codes are now changed every six months. The Commission is reviewing the feasibility of having the cleaning completed during the day. Construction of enclosed interview rooms for the lobby is planned for the fourth quarter of 1997 to improve privacy.

Compliance with Legislation

We performed a review of the Commission's compliance with the *Workers' Compensation Act* and the *Public Tender Act*. Our review identified the following.

1. *Workers' Compensation Act*

The *Workers' Compensation Act* was enacted to establish the Workers' Compensation Commission and provide for its operation. It permits the Board of Directors of the Commission to establish policies consistent with the Act in relation to compensation and rehabilitation benefits to injured workers as well as assessments and investments. Our review identified the following instances where the Commission advanced monies to its employees although the Act does not provide authority to extend loans or advances:

- A procedure was implemented by the Commission during 1995 which provided for advances to employees for the purchase of computer equipment for personal use. The loans, for amounts up to $3,000, are repaid through payroll deduction with the option of a one or two year repayment period. Interest is charged at the rate of prime plus one percent, set on the date the Payroll Authorization Form for deductions is signed. During 1995, approximately $98,000 was advanced to 37 employees for this purpose.

- The Commission made advances to its employees during the year, interest free, to cover the costs of tuition and books for career related training. Employees repaid these funds over an eight week period through bi-weekly payroll deductions. During 1995 approximately $1,300 was advanced to employees for this purpose.

Recommendation

The Commission should comply with the Workers' Compensation Act.

Commission's Response

The Commission considers the computer purchase plan and the tuition advance plan to be part of the benefit package available for employees at the Commission, and within the discretion of the Commission to authorize. The Commission is always seeking ways to enable its employees to upgrade their skills and improve the quality of the service provided to stakeholders.

2. *Public Tender Act*

The Commission is required to comply with the provisions of the *Public Tender Act*. With the exception of advertisements for tender calls not detailing the time and place of the tender opening, as required by the Regulations to the *Public Tender Act*, we did not identify any other instances of non-compliance. However, we did identify the following weaknesses in purchasing controls:

- The policies and procedures manual was not updated to reflect amendments to the *Public Tender Act* and changes in the Commission's purchasing procedures.
- The *Public Tender Act* specifies that where a tender call is not required, quotes are to be obtained from at least three legitimate dealers or a fair and reasonable price for the goods or services established by reference to price lists or trade catalogues. We were informed by the staff member responsible for purchasing that, contrary to this requirement, the Commission used an arbitrary limit of approximately $300 below which quotes are not obtained.
- We found that a record was not kept of all tender bids as they were received. Furthermore, the tender bids were not stored in a locked box and bidders were not always informed of the results of the tender call.

Recommendation

The Commission should comply with the Public Tender Act *and strengthen its purchasing procedures.*

Commission's Response

A purchasing manual is now available for staff who are responsible for the purchase of goods and services. The practice of not obtaining three quotes for goods valued below $500 will be reviewed to determine the cost benefit of obtaining and documenting three quotes every time versus the savings achieved. A locked box has been placed in the reception area for the secure storage of tender documents that are dropped off by bidders.

Compensation and Other Practices

1. Compensation Practices

The Commission's employees are hired through its Human Resources Department. During our review the following issue was identified with respect to the payment of professional fees.

Cabinet directed that all Government departments, Crown corporations and agencies not entertain new requests for payment of professional fees after 18 December 1990. Grandfather provisions were made so that employees who were already compensated for their professional fees would continue to be compensated. During our review, we noted that the Commission has complied with this directive except in one case where professional fees of approximately $700 were paid on behalf of one employee for each of the past three years for a total cost of approximately $2,100. This employee became employed with the Commission after the effective date of the directive.

Recommendation

The Commission should ensure that its compensation policies are in compliance with applicable directives.

Commission's Response

In an effort to recruit the best qualified candidate, a decision was made in 1993 to pay the professional accounting fees for one position.

2. Hiring of Consultants

A review of Board minutes indicates that a commitment has been made to issue proposal calls on a rotating basis for professional services required by the Commission. That is, one call per year will be made until all major consultants have had the opportunity to submit proposals. While it has made this commitment to call for proposals, the Commission has not established formalized policies or procedures for the hiring and evaluation of consultants.

Starting with its auditors in 1995, the Commission has initiated the process of rotating its consultants. However, there is no plan to rotate the services of the engineering consultant. Figure 9 outlines the length of time for which the major consultants have been appointed.

Figure 9

Workers' Compensation Commission
Major Consultants
31 December 1995

Consultant	Length of Appointment	Expense for 1995
Auditor	Called for proposal in 1995 and engaged new auditor for 1995 year. Previous auditor engaged since inception in 1951.	$68,000
Banker	Engaged same banker since 1951. Called for proposal in 1988 and engaged same banker as a result of the proposal.	$27,700
Investment Manager	Appointed in 1988.	$40,600
Actuary	Appointed in 1990.	$88,000
Engineering Consultant	Engaged same engineering consultant since 1981.	$23,500

Source: Workers' Compensation Commission

Our review indicated that the Commission has engaged the services of consultants such as legal counsel, investment manager, and actuary without a written contract. A written contract would outline the terms and conditions of the engagement and would provide a reference for subsequent evaluation of the services received.

Recommendation

The Commission should have a formal policy for hiring and evaluating consultants.

The Commission should have a written contract in place with each of its external consultants.

Commission's Response

The Board of Directors approved guidelines for hiring and evaluating consultants at a 12 June 1997 meeting.

The Commission is in the process of preparing written contracts for the professional services that are obtained externally. This is scheduled to be in place by the end of 1997.

Department of Justice

3.24 Newfoundland Legal Aid Commission

Introduction

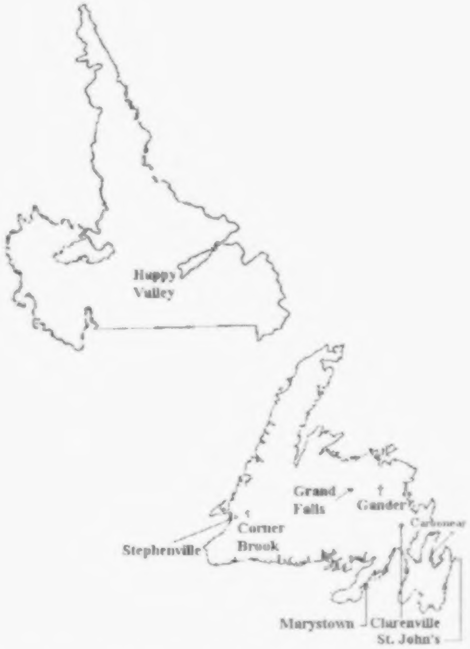
The Newfoundland Legal Aid Commission was created under Section 3(1) of the *Legal Aid Act* and operates under that Act and Regulations. The affairs and operations of the Commission are under the direction of a Board of Commissioners consisting of five members appointed by the Lieutenant-Governor in Council and two ex-officio members, specifically the Deputy Minister of Justice and the Provincial Director of Legal Aid. In accordance with Section 11 of the Act, the Commission has appointed a Provincial Director of Legal Aid who is the Chief Executive Officer of the Commission and is responsible for the general direction, supervision and control of its business. To assist in its operation, the Commission has established an Executive Committee comprised of the Chairperson of the Board, Vice-Chair/Secretary and the Provincial Director of Legal Aid.

The purpose of the Commission is to establish and administer a plan to provide legal aid to residents who qualify under the *Legal Aid Act*. To obtain legal aid, an individual must complete an application providing a brief description of the legal problem and information on income, expenses and net assets. Each application for legal aid is evaluated in accordance with its legal merit and the applicant's financial eligibility, as outlined in the Act and Regulations.

Criminal, family and civil legal services are provided at nine area offices throughout the Province. As indicated in Figure 1, these area offices are located in St. John's, Corner Brook, Gander, Grand Falls, Carbonear, Clarenville, Marystown, Stephenville and Happy Valley. Each area office is managed by an Area Director who is responsible for the general administration of legal aid in that area.

Figure 1

Newfoundland Legal Aid Commission
Regional Offices
31 March 1997



Source: Newfoundland Legal Aid Commission

Scope and Objectives

We completed our review of the Newfoundland Legal Aid Commission in March 1997. Our review consisted primarily of interviews with members of the Board of Commissioners and management, and the review of internal documents including policies, procedures, minutes, correspondence, reports, legislation and regulations.

The objectives of our review were to:

- examine the financial operations of the Commission;

- examine the structure and process in place at the Commission to ensure adequate planning, reporting, accountability and Board governance; and
- examine the Commission's management practices particularly in the areas of legislative compliance, budgeting and human resources.

Conclusions

Controls over accounts receivable, totalling $337,322 as at 31 March 1997 (1996 - $301,391), are inadequate and the Commission has not been successful in collecting amounts owing to it. Accounts receivable include credit balances totalling $30,163 (1996 - $25,596), some of which are owing to clients but have not been paid. The Commission could not always provide client files to support the account receivable balances. Funds remain deposited in trust for cases that have been completed. These funds were never transferred from the trust account to the operating account.

The Commission provided a loan to an employee. Public money should not be used for employee loans.

The applicant assessment process is deficient in that income verification is not always documented and intake workers have not been provided with guidelines to determine the reasonableness of certain applicant expenses.

Accountability at the Newfoundland Legal Aid Commission requires improvement. The Commission does not prepare an annual report to show its actual results of operations compared to its objectives and demonstrate its accountability to the Minister, Government or the House of Assembly.

Improvements could be made to the Commission's management practices. There were instances of non-compliance with the *Legal Aid Act* and *Regulations*. For example, the Commission does not always require a determination of expenses and net assets in assessing the financial eligibility of applicants, the Commission does not provide an annual report to the Minister concerning its work and the Commission's Area Directors do not submit monthly or annual reports to the Provincial Director on the operations of the area offices. The Commission does not have conflict of interest guidelines for the Board and staff. Employee performance evaluations are not completed on a regular basis and employee position descriptions are not in place for all employees.

Findings and Recommendations

Financial Operations

1. Financial Position

Figure 2 provides financial information on the Commission's operations and indicates that the financial position of the Commission has improved over the last six years from an accumulated deficit of $802,187 in 1992 to an accumulated surplus of $399,246 in 1997. As a result of the improved financial position, the bank balance has increased from an overdraft of $488,438 in 1992 to a deposit of $876,993 in 1997.

Figure 2

Newfoundland Legal Aid Commission
Revenue, Expenditure and Surplus (Deficit)
Years Ended 31 March

	1997	1996	1995	1994	1993	1992
Revenue						
Grant from Province	$5,393,500	$5,403,030	$5,411,400	$5,411,400	$6,253,900	$4,744,617
Grant from Law Foundation	196,011	398,951	169,368	99,736	233,552	506,788
Other	111,409	103,106	95,801	101,717	79,504	132,621
Total revenue	5,700,920	5,905,087	5,676,569	5,612,853	6,566,956	5,384,026
Total expenditure	5,682,221	5,767,320	5,683,834	5,438,775	5,688,802	6,029,023
Excess revenue over expenditure (expenditure over revenue)	18,699	137,767	(7,265)	174,078	878,154	(644,997)
Accumulated Surplus (Deficit)	$399,246	$380,547	$242,780	$250,045	$75,967	($802,187)

Source: Audited Financial Statements

2. Purchasing

Our review of the Commission's purchasing practices indicated that, with the exception of improvements which could be made by using purchase orders and documenting purchasing guidelines for staff, no other significant issues were identified.

Recommendation

The Commission should implement a purchase order system and document purchasing guidelines.

3. Accounts Receivable

The accounts receivable balance as at 31 March 1997 was $337,322 (1996 - $301,391). The details, as obtained from the Commission's records, are outlined in Figure 3.

Figure 3

Newfoundland Legal Aid Commission
Accounts Receivable
31 March

	1997	1996
Amounts owing from clients	$235,312	$229,885
Unearned revenue	59,900	50,885
Amounts owing from current and former employees	5,083	17,210
Other	37,027	3,411
Total	$337,322	$301,391

Source: Newfoundland Legal Aid Commission

The Commission's controls over accounts receivable are inadequate. Also, the Commission has not been successful in collecting amounts owing to it as evidenced by the fact that it estimates 85% of the amounts owing from clients to be uncollectible. Our review indicated the following:

- The Commission could not locate 10 of the 45 client files that we requested for review.
- Although the Commission has a computerized accounting system to record its accounts receivable, it does not produce an aged trial balance to show how long the accounts have been outstanding. Furthermore, a review of the accounts receivable listing that is produced indicated that the dates of the transactions on the accounts were not always accurate.
- Records of the Commission indicate that funds remain deposited in trust for cases that have been completed, including amounts dating as far back as 1977. The Commission has not taken action to transfer these funds from the trust accounts to its operating account.
- As at 31 March 1997, there were $30,163 (1996 - $25,596) of credit balances in accounts receivable. Our review of these accounts indicated that some of the client files did not support the reported balances. In other instances, the balances were amounts owing to clients.

Our review also indicated that there were amounts totalling $5,083 (1996 - $17,210) owing from employees. While the Commission does not have authority to advance funds to employees, these receivables resulted from advances related to fees paid to the Law Society of Newfoundland on behalf of employees. There was, however, one employee loan of $3,000 in 1994 which was subsequently repaid.

Recommendations

The Commission should take action to strengthen its controls over accounts receivable. The Commission should:

- *ensure that appropriate files are maintained to support all client transactions;*
- *place a greater emphasis on the collection of accounts as they become due;*
- *prepare an aged trial balance of accounts receivable accurately reflecting the dates of transactions;*
- *discontinue its practice of providing employee loans; and*
- *analyse the amounts held in trust to determine the status of the cases and whether monies can be transferred to the operating account.*

4. Assessment of Applicants

Applicant review procedures to assess financial eligibility and legal merit are necessary to ensure that Legal Aid services are provided to individuals in accordance with the framework outlined in the *Legal Aid Act* and *Regulations*. To obtain legal aid, an individual must complete an application providing a brief description of the legal problem and information on income, expenses and net assets. The Commission applies the expense rates used by the Department of Human Resources and Employment for the Social Assistance Program in establishing allowable expenses. If applicant expenses exceed these rates, the intake worker assesses the reasonability of the expenses. Each application for legal aid is also evaluated in accordance with its legal merit.

The assessment determines whether the applicant is eligible to receive legal aid and also determines the amount, if any, that the applicant is required to contribute. Subject to the legal merit of the case, recipients of social assistance are automatically eligible for legal aid.

Our review of the assessment of applicants disclosed the following:

- although the Commission applies the rates used by the Department of Human Resources and Employment for certain expenses, it has not developed guidelines for the intake workers in determining whether an applicant's expenses are reasonable and allowable for the purpose of determining financial eligibility;
- information needed to assess financial eligibility, such as Department of Human Resources and Employment client numbers and Social Insurance Numbers, was not always verified; and
- while the *Legal Aid Act* and *Regulations* require a determination of income, expenses and net assets in order to assess financial eligibility, the Commission does not require a determination of expenses and net assets for criminal cases.

As a result, the Commission's income, expense and net asset verification procedures were not adequate.

Recommendation

The Commission should strengthen its applicant assessment procedures in determining financial eligibility and comply with the requirements of the Legal Aid Act *and* Regulations.

5. Capital Assets

As at 31 March 1997, the Commission's audited financial statements showed capital assets of $703,445. This represents a significant investment by the Commission and as a result, controls are necessary to ensure safeguards against unauthorized use, damage and theft. The Commission maintains a manual listing of capital assets which is updated for acquisitions and disposals.

Our review of the Commission's controls over capital assets indicated that annual physical counts are not performed and reconciled to the capital asset listing, and not all capital assets have identification tags. In addition, the Commission has not established procedures to provide guidance to staff in the area of capital assets.

Recommendation

The Commission should strengthen its procedures over capital assets.

Board Governance

Board governance is the overall authority of the Board of Commissioners to exercise direction and control over the Commission. The *Legal Aid Act* defines the roles, relationships, powers, and accountability of management and the Board of Commissioners to the Minister of Justice, the Lieutenant-Governor in Council and the House of Assembly. Governance refers to setting direction, making decisions, monitoring progress and being accountable for the performance of the entity. Good governance requires the Commission to have an appropriate structure and process in place for achieving adequate accountability to all stakeholders. Government and the House of Assembly also have a role in ensuring that an adequate system of accountability is in place.

Our review indicated the following weaknesses:

- Although the Commission has developed a Strategic Information Technology Plan, long-term and operational objectives for the entire organization have not been established and priorized to ensure consistency with the Commission's legislative mandate. Objectives of the Commission are set out in the Act but have not been further defined. The Commission has not established criteria to measure how well it is meeting its objectives and fulfilling its mandate.

- The Board of Commissioners does not provide the Minister with an annual report on the work of the Commission. The Minister is only provided with a copy of the annual audited financial statements. Preparation of an annual report to be tabled in the House of Assembly would strengthen the accountability of the Commission.
- The Board does not review the performance of its senior management and has not evaluated its own performance.
- Formal orientation sessions are not held to assist new Board members in understanding their roles and responsibilities.
- The Commission has not established selection criteria that could be considered by the Lieutenant-Governor in Council when making appointments to the Board.

As a result, the Commission's system of accountability requires improvement.

Recommendation

The Commission should strengthen its system of accountability.

Management Practices

1. Compliance with Legislation

The *Legal Aid Act* and the *Legal Aid Regulations* outline the reporting structure that is required for the Commission. Our review of the Commission's compliance with the Act and Regulations indicated the following:

- Section 22(1) of the *Legal Aid Act* requires the Commission to prepare and submit to the Minister, by 30 September each year, a financial statement and a report concerning the work of the Commission during the previous financial year.

  While the Commission submits annual audited financial statements to the Minister, it has never provided an annual report concerning its work.

- Section 25(1) of the *Legal Aid Act* requires the Commission to prepare, adopt and submit a budget for the next fiscal year to the Minister by 30 September each year.

  For the last several years the Commission has submitted its budget to the Minister after the statutory deadline.

- Section 58(b) of the Regulations requires each Area Director to submit regular (monthly) reports to the Provincial Director in accordance with approved guidelines. In addition, section 59 of the Regulations requires each Area Director to submit an annual report on the operations of the area office to the Provincial Director by 10 April, in accordance with approved guidelines.

  The Area Directors do not submit regular (monthly) or annual reports to the Provincial Director on the operations of the area offices.

- Section 60 of the Regulations requires the Provincial Director to submit quarterly reports to the Board of Commissioners. Section 61 of the Regulations requires the Provincial Director to submit an annual report no later than 30 June. In addition to other requirements, the Regulations state that these reports should summarize the amounts received through client contributions and recoveries.

While the Provincial Director does submit quarterly reports and an annual report to the Commission, the annual report for the year ended 31 March 1997 was not submitted to the Board by the 30 June deadline. In addition, these reports do not summarize the amounts received through client contributions and recoveries.

Recommendation

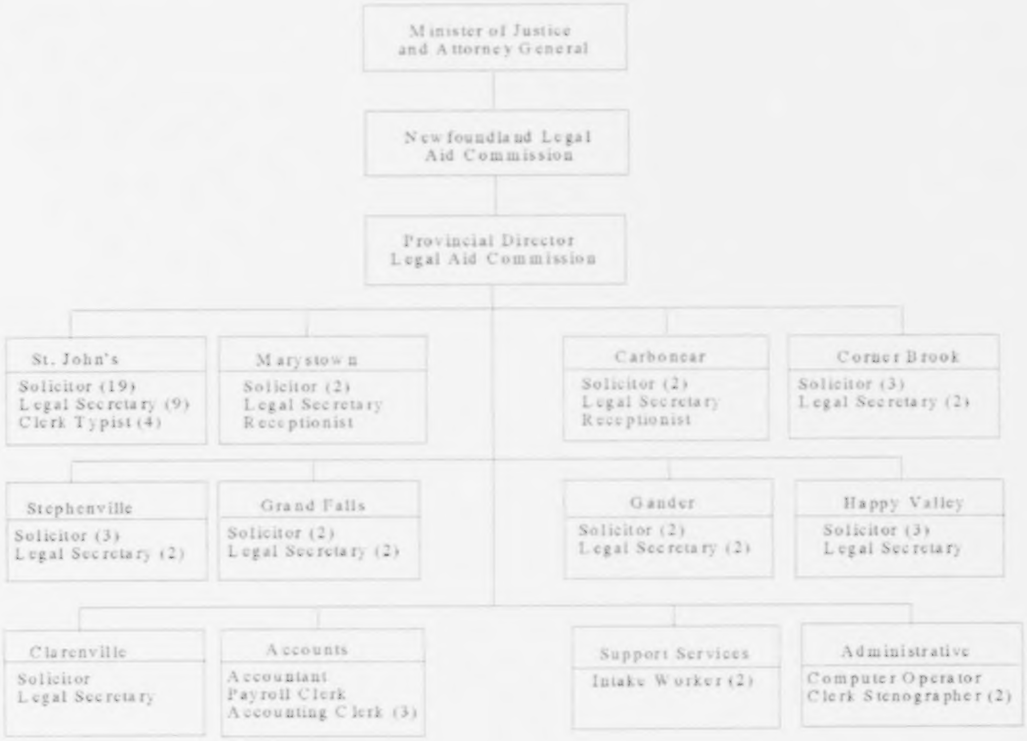
The Commission should comply with the Legal Aid Act *and* Regulations.

2. Human Resources

As at 31 March 1996, the Commission had 75 permanent employees consisting of solicitors, direct staff (intake workers and secretaries) and administrative staff. Figure 4 shows the Commission's organizational structure as at

Figure 4

Newfoundland Legal Aid Commission
Organizational Structure
31 March 1996


Minister of Justice
and Attorney General
Newfoundland Legal
Aid Commission
Provincial Director
Legal Aid Commission
St. John's
Solicitor (19)
Legal Secretary (9)
Clerk Typist (4)
Marystown
Solicitor (2)
Legal Secretary
Receptionist
Carbonear
Solicitor (2)
Legal Secretary
Receptionist
Corner Brook
Solicitor (3)
Legal Secretary (2)
Stephenville
Solicitor (3)
Legal Secretary (2)
Grand Falls
Solicitor (2)
Legal Secretary (2)
Gander
Solicitor (2)
Legal Secretary (2)
Happy Valley
Solicitor (3)
Legal Secretary
Clarenville
Solicitor
Legal Secretary
Accounts
Accountant
Payroll Clerk
Accounting Clerk (3)
Support Services
Intake Worker (2)
Administrative
Computer Operator
Clerk Stenographer (2)

Source:Newfoundland Legal Aid Commission

During 1993 and 1994, the Commission increased the number of staff solicitors and at the same time decreased the use of private solicitors in an effort to reduce costs. Figure 5 shows the staff complement from 1992 to 1996.

Figure 5

Newfoundland Legal Aid Commission
Permanent Employees and Salary Costs
31 March

	1996	1995	1994	1993	1992
Solicitors	37	35	36	33	28
Direct staff	25	27	29	28	25
Administration	13	13	13	12	13
Total	75	75	78	73	66
Salary costs (Millions)	$3.8	$3.7	$3.4	$3.2	$3.0

Source: Newfoundland Legal Aid Commission Audited Financial Statements

Our review of the Commission's human resources identified the following:

- Position descriptions are not in place for all employees.
- There are no periodic performance evaluations completed for staff. Performance evaluations are only completed when employees are eligible for reclassification.
- There are no conflict of interest guidelines for either the Board or the staff.
- While staff solicitors have increased from 28 in 1992 to 37 in 1996, the administrative and direct staff was 38 in both years.

To assess the financial impact of the Commission's initiative to reduce the use of private solicitors and reduce the Commission's costs, we reviewed the Commission's annual statistical reports and Federal claims from 1992 to 1996. Figure 6 indicates average cost per hour, average hours per case, average cost per case, number of cases completed, total expenditure for both staff solicitors and private solicitors, unallocated administrative cost and total expenditure of the Commission from 1992 to 1996.

Figure 6

Newfoundland Legal Aid Commission
Expenditure and Case Information
1992 to 1996

	1996	1995	1994	1993	1992
Staff solicitors					
Average cost per hour					
Salaries per hour	$64.05	$61.03	$53.39	$61.49	$63.10
Direct service expense per hour	33.11	35.87	32.78	33.03	33.63
Average cost per hour	$97.16	$96.90	$86.17	$94.52	$96.73
Average hours per case	3.13	3.45	2.71	2.33	2.49
Average cost per case	$304	$334	$234	$220	$241
Cases completed	10,576	9,557	11,592	9,848	7,500
Total expenditure - Staff solicitors (Millions)	**$3.2**	**$3.2**	**$2.7**	**$2.3**	**$1.8**
Private solicitors					
Average cost per hour	$75.97	$66.00	$62.84	$71.53	$61.94
Average hours per case	6.13	6.56	7.38	5.98	6.33
Average cost per case	$466	$433	$464	$428	$392
Cases completed	1,766	2,136	1,922	3,345	5,093
Total expenditure - Private solicitors (Millions)	**$0.8**	**$0.9**	**$0.9**	**$1.4**	**$2.0**
Unallocated administrative and other expenditures (Millions)	**$1.7**	**$1.6**	**$1.8**	**$2.0**	**$2.2**
Total Expenditures (Millions)	**$5.7**	**$5.7**	**$5.4**	**$5.7**	**$6.0**

Source: Newfoundland Legal Aid Commission

Note 1: Direct service expense includes case disbursements and an allocation for overhead expenses such as legal secretaries, bar fees and office rent.

Note 2: Unallocated administrative and other expenditures include the salary for the equivalent of five staff solicitors for time on Duty Counsel and intake work.

Figure 6 indicates the following:

- the Commission has reduced its use of private solicitors from 5,093 cases in 1992 to 1,766 cases in 1996; and
- although the cost per hour for staff solicitors is higher than that for private solicitors, staff solicitors on average spend less time on each case and as a result, the average cost per case for staff solicitors is lower than that for private solicitors.

Recommendations

The Commission should:

- *prepare current position descriptions for its employees;*
- *evaluate employee performance on a regular basis;*
- *develop conflict of interest guidelines for the Board and staff; and*
- *review the ratio of administrative and direct staff to staff solicitors.*

Commission's Response

Purchasing

The Legal Aid Commission is working on the implementation of a purchase order system and the appropriate guidelines.

Accounts Receivable

In commenting on Legal Aid's accounts receivable there are a number of unique factors that place Legal Aid's accounts receivable into a different category than commercial accounts receivable.

- *The Legal Aid legislation makes provision for a lawyer to represent those individuals who are unable to retain a lawyer without them or their dependents suffering undue financial hardship such as being required to dispose of modest necessary assets or incurring heavy indebtedness.*
- *A majority of applicants to Legal Aid are in receipt of social assistance, employment insurance benefits, disability benefits, minimum wages, etc. Often those who are employed work for only a few weeks and then transfer to EI benefits or social assistance.*
- *In assessing a person's ability to pay the Legal Aid Commission has to consider the person's income and expenses at the date of their application and assume that in the case of an applicant for criminal legal aid the person will be found not guilty, and in the case of family/civil legal aid there will be some stability in their income and expenses. Often in criminal cases a person is found guilty and sentenced to a jail term. In some instances the sentence may be a fine for which, if the person does not pay, they are required to serve time in prison and places them in a position where they are unable to continue with the payments they have agreed to pay to the Legal Aid Commission.*
- *In family/civil cases because of the difficulties being encountered by the family there is often an interruption in the person's income, an increase in expenses or other emergency expenses that are caused as a result of the family having to move and/or relocate.*
- *Once a Legal Aid certificate is issued to a lawyer to represent a person and the lawyer appears in court the lawyer then becomes the solicitor of record with the court. The lawyer, as an officer of the court, is unable to cease representing an individual until they are granted leave of the court to withdraw. In those cases where the Legal Aid Commission has*

cancelled a Legal Aid certificate because of non payment and the lawyer has sought the permission of the court to withdraw as solicitor of record, this request has been denied and the solicitor has been forced to continue with the representation.

- *The Legal Aid legislation precludes the Commission form attaching wages to collect monies owing to the Legal Aid Commission. The ability of the Commission to recover amounts from clients is difficult, however if the Commission decided not to request payments because of all of these factors, then the Commission loses the ability to recover the amounts that it does recover.*

The Legal Aid Commission is of the view that these are unique factors that put the accounts receivable of Legal Aid into a different category than ordinary commercial accounts receivable transactions.

With respect to your recommendations on accounts receivable the Commission comments as follows:

- *The Commission apologizes for not having all of the files available to your staff during its audit. The Commission feels confident that it has appropriate files to support all of the client transactions.*
- *The Commission is actively pursuing all of the current accounts receivable to ensure collection of same where possible and it is practical and economically feasible to do so. Applicants who owe money to Legal Aid are normally denied further coverage until suitable arrangements are made on their outstanding debts.*
- *The present computerized system does not have the ability to produce an aged trial balance. The Commission, periodically, manually prepares an aged trial balance. The difficulty with the dates of transactions is primarily because of this computerized system in that when it was implemented it picked up the transaction as of the date of recording which meant that all existing balances were picked up at the date of the implementation of this program. The Commission did have consultations in an attempt to update this computerized system, however it was felt that the cost outweighed the benefit to having such an improvement made to the existing program and that instead the Commission should proceed and implement a new Legal Aid Management Information System and an accounting package. This is contained in the Commission's IT report and recommendations and it is currently being implemented as funds are made available in the Legal Aid Commission's budget.*
- *It has been proved that is more economical to provide services by staff counsel. In order to recruit staff counsel the Legal Aid Commission included, as part of the terms of employment with solicitors, that the lawyers insurance and bar fees would be paid by the Legal Aid Commission with appropriate deductions from these solicitors salaries to reimburse the Commission these amounts for the Law Society membership and insurance. Other staff solicitors working for government had their membership fee paid by government and government provided an indemnification so that they did not have to pay the insurance premiums.*

  Effective July, 1996, government has extended this indemnification along to staff solicitors and the Legal Aid Commission now pays the membership fees for lawyers. It is the Commission's position that under Sections 12, 13 (e), 15, 18 (2)(a) and 31 (3), they had sufficient authority to make these arrangements with staff solicitors.

  Similarly, with the $3,000 salary advance to one employee in 1994, the Commission felt that because of the unique circumstances involved in this situation *and to ensure that staff are available in this area of the province to deliver legal aid services, that the Commission was justified in extending this salary advance under the provisions of the Legal Aid Act as referred to above. Commission policy now prohibits loans to employees.*

- *The Commission will continue to analyse the amounts held in trust and to determine the status of cases to ensure that all funds that may be transferred to the operating account will be transferred. It is the Commission's hope, with the implementation of the new computer programs, this will be concluded more efficiently and quickly than if we have to follow through to have this analysed on a manual basis.*

Assessment of Applications

The Legal Aid Rules for Determining Financial Eligibility require the Legal Aid Commission to apply flexible rules which take into account whether the applicant can retain counsel, at their own expense, without their dependents, if any, suffering undue financial hardship such as incurring heavy indebtedness or being required to dispose of modest necessary assets. The various items of income that must be included are listed in these rules together with the regulations. The only expense for which "reasonable" is applicable is in relation to shelter expenses. What is reasonable in one area may not be reasonable in another area of the province. It is the Commission's opinion that the Area Directors are the best people to determine what is "reasonable" in their area. As noted earlier in this correspondence, the vast majority of applicants for legal aid are in receipt of social assistance, EI benefits, disability payments, and those that are working are in receipt of low income. These applicants do not have the ability to pay high shelter costs. In the Commission's review of applications it has been observed that the amounts that have been allowable for such an expense are "reasonable" in light of all of the circumstances. The Commission will further review the accommodation expense to consider further guidelines with respect to what may be considered as a "reasonable" cost for shelter.

With respect to your comment about the verification of social insurance numbers, etc., the Commission reiterates earlier comments about the Legal Aid client. In many cases the Legal Aid Commission already has an existing file or information and it seems counter-productive to request a person to go an obtain further proof of their income and expenses. To efficiently operate the Legal Aid system it is felt that flexibility is needed in this area. To insist that proof has to be obtained in all cases will require delays in approving applications and the requirement that many applicants will be required to seek adjournments at court will be a further cost to the overall justice system. In all applications for legal aid the Commission requires a determination of all income, expenses, assets, liabilities, etc. Your statement that the Commission does not require this does not appear to be an accurate reflection of the information that has been provided to your staff. The only cases where an application is not obtained is in the provision of duty counsel. The legislation does not require the determination of income, expenses, assets, liabilities for the duty counsel service. The duty counsel service is provided for first appearances in court as well as telephone advise to those individuals who are arrested or detained by a peace officer.

Capital Assets

The Legal Aid Commission has carried out an inventory of its capital assets for the past two years. Improvements are continuing to be made in this area.

Board Governance

The Legal Aid Commission notes your comments in relation to governance and will further review your comments and implement improvements that are determined to be desirable and necessary.

Your last two comments in this section causes some concern in that in reviewing the mandate of Commission members it would seem that such recommendations do not fall under the authority or purview or mandate of the Commission. The legislation authorizes the Lieutenant Governor in Council to appoint members to the Commission. Three of the five appointees are from nominations from the Law Society of Newfoundland.

Management Practices

Compliance with Legislation

- *The Commission will further review and consider your recommendations with respect to Section 22(1) for the Act.*

- *As has been pointed out to you previously, the Legal Aid Commission submits its budget in accordance with the requests that are received from government. The guidelines for the budget submissions are not received from government in time to submit a budget by the legislated dateline. As a practical matter, the Commission feels that the process of responding to the request received from government is a more practical approach, while technically in breach of Section 25(1). The Legal Aid Commission is presently reviewing the Legal Aid Act and Regulations to prepare a report for consideration of amendments to the legislation.*

- *Since Regulation 58 (b) was implemented the Commission has a management information system which provides regular information to the Provincial Director's office. It is felt that these reports, on the operation of the Area Offices, are reports from Area Offices to the Provincial Director. The Commission, however, will further review your recommendation.*

- *The Provincial Director reports to the Commission monthly at the monthly Commission meetings.*

- *The Legal Aid Commission is using the position descriptions that are in place with the provincial government, i.e., accountant, accounting clerks, receptionist, legal secretaries, solicitors, intake workers. To update these current descriptions will obviously involve further consultation with government to determine the changes in the position descriptions that have been made since the Commission adopted the position descriptions already in place by government.*

- *The Commission will further consider your recommendation and attempt to obtain some additional information with respect to evaluating employee performance.*

- *The Commission will review the conflict of interest guidelines, under the provincial legislation, and further consider your recommendation with respect to this issue.*

- *The ratio of administrative and direct staff to staff solicitors is an item that is reviewed frequently, particularly during the recent government review and at the annual budget presentations. The Commission, however, will give further consideration to your comments.*

The methodology used by you for Figure 6 appears to have information missing and some information applied incorrectly. From the Commission's calculations for 1996 staff lawyers costs $48.55 per hour and not the $64.05 identified by your staff.

Department of Fisheries and Aquaculture

3.25 Newco Corporations-Middle Distance Fishing Vessels

Introduction

The Department of Fisheries began a program in the late 1970's to evaluate the use of fixed-gear technology on mid-size vessels in the Newfoundland groundfish fishery. During 1987, the program was expanded with the construction, by Marystown Shipyard Limited, of two middle distance fishing vessels, the *Funk Island Banker* and *Belle Isle Banker*, that were specifically designed for Newfoundland conditions. As a result of a financing arrangement between the Province and a leasing company, the two vessels were purchased by Roylease Limited and leased back to the Province through two companies, Newco I and Newco II, which were created under the *Corporations Act*.

During 1988 and 1989 the program was further expanded with the construction, by Marystown Shipyard Limited, of two additional middle distance fishing vessels, the *Makkovik Banker* and *Nain Banker*. This time, the two vessels were purchased by Pitney Bowes Limited and leased back to the Province through two companies, Newco III and Newco IV, which were created under the *Corporations Act*.

The Province, through senior Government officials, held an 85% ownership interest in each of the four Newco corporations.

In 1995, we performed a review of the Newco corporations. In our 1995 Annual Report to the House of Assembly we concluded, among other things, that:

- As at 31 March 1994, the Newco corporations owed the Province $15.4 million comprised of $12.0 million in advances and $3.4 million in related interest charges. In addition, the Province had guaranteed lease payments totalling $13.9 million on behalf of these corporations. This combined total of $29.3 million was estimated to have little likelihood of recovery.
- Three of the vessels were sold during April and July 1995 at a net combined loss of $7.2 million. The remaining vessel, the *Nain Banker*, was leased to the Fisheries and Marine Institute of Memorial University of Newfoundland under a one-year agreement which commenced in January 1995. Under the agreement, the operator was responsible for operating, maintenance and insurance costs of the vessel. Newco IV remained responsible for semi-annual lease payments of $253,879.

Nain Banker

Scope and Objectives

We updated our review of the Newco corporations in October 1997.

The objectives of our review were to:

- update the cost to Government of operating the middle distance fishing vessels; and

- analyse the impact of leasing arrangements entered into subsequent to our 1995 review.

Conclusions

The Province's involvement with the Newco corporations is estimated to cost approximately $31.1 million to 31 March 1997. As at 31 March 1997, the Province was owed $5.6 million by Newco IV Corporation, comprised of $4.5 million in advances and $1.1 million in related interest charges. The Province has also guaranteed the lease payments of Newco IV which have a principal balance of $3.0 million as at 31 March 1997. In addition, the Province has written off $15.3 million dollars in advances and related interest charges to the Newco corporations and lost $7.2 million on the sale of the three middle distance vessels.

The remaining middle distance fishing vessel, the *Nain Banker*, was leased to a private interest under a one-year agreement commencing in April 1997. The agreement provides the operator with an option to enter into negotiations to purchase the vessel within the term of the agreement. There is also an option to extend the existing agreement for an additional one-year term.

Detailed Findings

Transactions with the Province

The Consolidated Revenue Fund financial statements as at 31 March 1997 disclose a number of transactions with Newco IV Corporation. The following comments resulted from our review of transactions since our last report which covered the period up to the year ended 31 March 1994.

A summary of transactions related to advances made by the Province to the Newco corporations is contained in Figure 1.

Figure 1

Consolidated Revenue Fund
Loans Receivable
Newco Corporations
Years Ended 31 March
($ 000's)

Description	1995	1996	1997	Summary
Opening Balance	$15,403	$18,703	$5,371	$15,403
Add: Advances	2,176	508	508	3,192
Interest charges	1,159	1,174	-	2,333
Less: Receipts	(35)	(32)	(2)	(69)
Write-offs	-	(14,982)	(271)	(15,253)
Closing Balance	$18,703	$ 5,371	$5,606	$ 5,606

Source: Loans Ledger, Consolidated Revenue Fund

The balance of $5.6 million due from Newco IV Corporation as at 31 March 1997 is comprised of $4.5 million in advances and $1.1 million in related interest charges. Advances made to the corporations were for anticipated deficiencies in operating funds, primarily related to lease payments on the vessels. For 1996 and 1997, the only remaining lease was for the *Nain Banker*.

Commencing with the year ended 31 March 1997, the Province has discontinued its practice of charging interest on Newco advances receivable. There were some miscellaneous receipts credited to the outstanding advance balance for such things as refunds on vessel insurance which were received directly by the Province. In conjunction with the sale of the three middle distance fishing vessels during the year ended 31 March 1996, the Province wrote off a total of $14,981,396. The amounts pertaining to Newco I, Newco II and Newco III were $5,069,163, $5,712,233 and $4,200,000 respectively. In addition, an amount of $271,216 was written off during 1996-97 for Newco IV, which corresponded to available losses carried forward for taxation purposes that were due to expire.

The Province's liability of $3,018,000 for the Newco lease as at 31 March 1997 is comprised of a current portion of $283,000 and a long-term portion of $2,735,000. This liability relates to the Province's remaining guarantee of lease payments to Pitney Bowes Limited for the vessel *Nain Banker*. The lease, which expires in August 2005, requires semi-annual payments of $253,879 which are advanced by the Province to Newco IV so that the obligation can be met.

Leasing of the *Nain Banker*

At the conclusion of our previous review, the remaining Newco vessel, the *Nain Banker*, was leased to the Fisheries and Marine Institute of the Memorial University of Newfoundland, for research and training purposes, for a one-year period ending in January 1996.

The terms of the original agreement were amended on 8 September 1995 and extended through further agreements until 16 January 1997. Commencing 16 January 1997, the *Nain Banker* was leased to Memorial University of Newfoundland on a month by month basis pending a final decision.

Based upon expression of interest received by the Province, options available with respect to the *Nain Banker* and its fishing licence included:

- sale of the *Nain Banker* to Memorial University of Newfoundland and transfer of the fishing licence to another vessel;
- sale or lease the vessel with fishing licence to Torngat Fish Producers' Co-operative Society Limited;
- call a public tender offering which would attract interest from local fisherman and fish processing companies; and
- extending a public tender offering beyond the local area to the international market.

In a Minute of Council dated 6 March 1997, the Minister of Fisheries and Aquaculture was authorized to direct Newco IV Corporation to enter into a lease agreement with Torngat Fish Producers' Co-operative Society Limited.

On 30 April 1997, an agreement was signed between Newco IV Corporation and the Torngat Fish Producers' Co-operative Society Limited that provided for the operation of the *Nain Banker* by the Torngat Fish Producers' Co-operative Society Limited for a one-year period commencing on that date.

Under the agreement, Newco IV would receive an operating fee of $50,000 and the amount of $145,600, paid in seven monthly installments of $20,800, to cover vessel refit costs and insurance costs to be incurred by Newco IV for the period of the agreement. The operator is responsible for all costs associated with the operation, maintenance and annual refit of the vessel. The vessel can be used for commercial fishing purposes in Canadian waters only, with the vessel's catch to be landed in Labrador, where possible. If the operator is unable to land fish at its own plant, then other processing companies in Labrador are to be given the first right of refusal.

Torngat Fish Producers' Co-operative Society Limited has the option to renew the agreement for a further year, subject to reaching acceptable terms with Newco IV on the amount of an operating fee. Upon written notice within thirty days of the end of the current agreement, Torngat Fish Producers' Co-operative Society Limited has the option of entering negotiations to purchase the *Nain Banker* from the Corporation.

Department's Response

Facts as presented are accurate. The Department of Fisheries and Aquaculture notes that the middle-distance program was undertaken to introduce this alternative harvesting technology to the Newfoundland and Labrador fishery but that the collapse of the groundfish fishery seriously impacted upon the program's overall objectives.

Department of Municipal and Provincial Affairs

3.26 Town of Pouch Cove

On 13 February 1997, the Public Accounts Committee of the House of Assembly passed a resolution requesting that we carry out a review of the administrative and financial operations of the Town of Pouch Cove. We commenced our review in February 1997 and the review covered the period from 15 November 1993 to 27 February 1997.

Our report on this review, together with Council's response, was presented to the Public Accounts Committee on 28 August 1997 and was tabled in the House of Assembly on 4 September 1997. The report addressed the following areas:

- Council Operations;
- Revenues;
- Operating Expenditures; and
- Capital Expenditures.

Our review indicated the following:

Council Operations

Council contravened the *Municipalities Act* by not approving the stipends paid to Councillors. Other payments to Councillors for reimbursement of personal expenses incurred in the conduct of municipal business were not always made in accordance with the *Municipalities Councillor Remuneration and Reimbursement Regulations.* We also identified 13 instances where Councillors were in a conflict of interest.

Revenues

The Town's cash management practices were inadequate. For example, deposits were not made on a timely basis. During the period of our review, cash shortages totalling $4,786 were identified. There may be other cash shortages caused as a result of unauthorized account adjustments, inadequate documentation, inadequate controls and a lack of a management trail.

In addition, of $141,101 in adjustments and write-offs to tax accounts, only $17,261 was approved by Council as required under the *Municipalities Act*.

Operating Expenditures

Controls over payments and purchases require improvement. Payments were made in contravention of the *Public Tender Act* and the *Municipalities Act* and Council did not receive information on a regular basis to monitor actual expenditures in relation to its approved budget. We could not locate documentation to support the payment of 1,174 hours of overtime costing approximately $14,000.

Capital Expenditures

Capital expenditures of the Town were not always made in accordance with the *Public Tender Act* or the *Municipalities Act*. The Guidelines issued by the Department of Municipal and Provincial Affairs under the financing programs used to fund the Town's road paving and water and sewage projects were not always followed by the Town.

Comments on Audits and Additional Examinations

4.1 Introduction

We conduct legislative audits to provide the House of Assembly with information on public sector accountability. Legislative audits are carried out to determine whether:

- public money is being properly collected and accounted for;
- expenditures are properly recorded and made for the purpose intended;
- accounts are properly kept;
- assets are adequately safeguarded; and
- accounting and management systems and practices are adequate.

These legislative audits also determine whether the activities of Government departments and agencies have been carried out in compliance with legislation, government policies and other authorities.

Monitoring the implementation of our recommendations is an important part of our obligation to report to the House of Assembly. Our objective is to monitor and report the degree to which positive change has occurred as a result of the implementation of recommendations in our prior years' reports.

Last year, we commenced a formal process of monitoring and updating the comments and recommendations included in our previous Annual Reports to the House of Assembly. It is our intention to monitor and update the recommendations in each Annual Report two years after it has been issued. Monitoring will continue until we are reasonably satisfied that issues are being adequately addressed or are no longer valid.

This chapter includes the results of these monitoring activities on our 1994 and 1995 Annual Reports.

4.2 Comments on Departmental Audits

Department of Finance

4.2.1 Borrowing Program (1994 Annual Report, Part 4.1)

Introduction

During 1994 we carried out a review of the Province's borrowing program which consisted of $5.4 billion in outstanding debenture and other debt. The Department of Finance is responsible for arranging and directing the annual borrowing requirements of the Province. In our 1994 report we concluded that:

- Formal objectives and performance indicators have not been established for the Province's borrowing program. As a result, the program is not being adequately monitored and evaluated. In addition, there is insufficient reporting to the House of Assembly on the results of the borrowing program.
- Continual borrowings in treasury bills are maintained although there may be bank account balances and significant amounts of short-term investments on hand. As a result of the spread in interest rates between investments and borrowings, this practice results in a cost to the Province.
- The Department does not comply with all requirements of relevant legislation and authorities.
- The Department does not comply with Government's guidelines on the hiring of consultants when selecting its fiscal advisors. In addition, the performance of the Province's fiscal advisors, in relation to the commissions paid, is not being evaluated.

The Department of Finance responded to our comments in 1994 indicating its disagreement with our conclusions.

In our 1996 Annual Report, we updated our comments on the Department's action in response to our 1994 comments and recommendations. We reported that the Department of Finance indicated that it had taken action where it agreed with our recommendations and it has not taken action on the following issues of disagreement.

Formal objectives and performance indicators have still not been established for the Province's borrowing program. The Department maintains that it is aware of the objectives of the borrowing program and although these objectives may not be formally documented, the Department is able to monitor and evaluate the program.

Continual borrowings in treasury bills are still being maintained, but at higher levels than in 1994, although there may be bank account balances and significant amounts of short-term investments on hand. The Department maintains that treasury bill borrowings are part of the overall borrowing strategy to maintain a portion of the total debt in floating interest rates and, as such, are not intended to finance short-term cash requirements as part of the cash management program.

We reported that the Department had not complied with the *Financial Administration Act* respecting the authority to enter into and approve treasury bill borrowing transactions. We noted that the Minister's authorizing signature was obtained subsequent to the transaction being completed. There has been no change in this situation as the Department feels that the authorization of treasury bill tenders after the tender is awarded meets the requirements of the *Act*.

The Department does not comply with Government's guidelines on the hiring of consultants when selecting its fiscal advisors. In addition, the performance of the Province's fiscal advisors, in relation to the commissions paid, is not being evaluated. The Department maintains that the Province's fiscal advisors are not consultants but are agents and the only compensation they receive are commissions for the underwriting of the debenture issues. Standard commissions are paid to fiscal agents operating in the various capital markets and therefore will not change regardless of the firms appointed as fiscal agents.

Update

As a result of our follow-up, we report that the Department of Finance has taken no further action to implement our recommendations. The Department has again indicated that it had already taken action where it had agreed with our recommendations.

4.2.2 Foreign Currency Debt (1994 Annual Report, Part 4.2)

Introduction

The Department of Finance is responsible for managing the long-term debt of the Province, including foreign currency debentures and other debt. During 1994 we performed a review of the Province's foreign currency debenture and other debt to determine the effect of currency exchange fluctuations on the cost of servicing this debt. As at 31 March 1994, total debenture and other debt outstanding, as disclosed in the Consolidated Revenue Fund financial statements, was $5.400 billion, of which $2.684 billion or 49.7% was repayable in foreign currencies. As at 31 March 1997, total debenture and other debt outstanding was $5.175 billion, of which $2.393 billion or 46.2% was repayable in foreign currencies. In our 1994 report we concluded that:

- the Province has a significant exposure to foreign exchange fluctuations attributable to changes in the value of the Canadian dollar; and
- Foreign exchange fluctuations have had a significant impact on the cost of servicing the Province's foreign debt.

We recommended that the Department of Finance develop formal objectives and policies relative to its borrowing program which address the risks associated with the fluctuations in foreign currencies.

In our 1996 Annual Report, we updated our comments on the Department's action in response to our 1994 comments and recommendations. We reported that the Department had made no formal progress on the 1994 recommendations. We were informed by the Department that it was working on a risk management strategy for exchange rates and interest rates. As this strategy was in the early stages of development, it was too early to assess the impact of this development.

Update

We have been informed by the Department of Finance that it is continuing to work on a risk management strategy for exchange rates and interest rates. This work is expected to be completed during the 1997-98 fiscal year.

4.2.3 Sinking Funds (1994 Annual Report, Part 4.3)

Introduction

The Province of Newfoundland borrows money by issuing debentures, many of which have sinking fund requirements. As well, the Province voluntarily maintains sinking funds for Canada Pension Plan (CPP) and other debentures. Sinking funds are a pool of cash and investments accumulated during the life of the debentures to repay the debt at maturity. The sinking funds of the Province are in one fund known as the Newfoundland Government Sinking Fund and the fund is administered by the Board of Trustees of the Newfoundland Consolidated Sinking Funds.

In 1994, we conducted a review which provided for an examination of the legislation and certain policies and procedures respecting sinking fund debentures and the fund. We made specific recommendations relating to legislation, contribution rates, sinking fund objectives and investment policies. Our review indicated that:

- policies and objectives respecting sinking funds should be reviewed by the Department of Finance to determine whether they are appropriate in relation to the Province's overall financial objectives; and
- an analysis of the costs and benefits of the Province maintaining surplus and voluntary sinking funds is needed to determine whether optimal use is being made of limited cash resources.

Update

As reported in our update contained in our 1996 Annual Report, the Department of Finance has taken action with respect to some of our recommendations; however, the action taken did not address all our concerns.

Recommendations for which little or no action has been taken are outlined below.

Contribution Rates

Our recommendation relating to contribution rates was that the Province should review the practice of maintaining voluntary sinking funds for Canada Pension Plan and other debentures, in light of its current borrowing requirements. Any decisions made in this regard should be based on a cost-benefit analysis. In response to our recommendation, the Department indicated it would review the practice of maintaining voluntary sinking funds. Our review disclosed that the Department of Finance has still not undertaken a formal review of this practice.

Investment Policies

Two recommendations resulted from our review of investment policies. These are as follows:

- Our first recommendation was that the rationale underlying chosen investment policies and practices of the fund should be regularly reviewed, and alternatives regularly considered and evaluated in terms of costs and benefits. In response to our recommendation the Department advised that it had been some time since a formal overall analysis of investment policies had been completed, but that such a study would be undertaken as soon as possible. Our review indicated that, to date, no such review has been undertaken.

- Our second recommendation was that the possibility of cancelling Province of Newfoundland debentures held in the sinking funds should be explored. We recommended that any decisions made in this regard should also be based on a cost-benefit analysis. In response to this recommendation, we were advised that the Board of Trustees has always held the view that, until a sinking fund becomes fully funded, the fund must maintain its own investments, including holdings of its own debentures, so that interest earnings on the investments could accumulate and the fund could grow in order to pay the principal at maturity.

  Officials at the Department of Finance advise that the Board of Trustees still holds this view.

4.2.4 Cash Management Program (1994 Annual Report, Part 4.4)

Introduction

During 1994 we carried out a review of the Province's cash management program which managed approximately $8.9 billion flowing through the Consolidated Revenue Fund. Responsibility for the cash management program is shared by the Treasury Board Secretariat, the Department of Finance and, to some degree, Government departments. In our 1994 report we concluded that:

- Government's cash management program is not being adequately coordinated or controlled.

- Formal objectives and performance indicators have not been established, and as a result, the cash management program is not being adequately monitored and evaluated.

- Departments have not been informed of Government's cash management policies and procedures. Cash related activities of Government departments, such as collections and payments, have not been coordinated with Government's cash management policies and procedures.

In response to our 1994 report, the Department of Finance disagreed with our conclusion that Government's cash management program is not being adequately coordinated or controlled and that the cash management program is not being adequately monitored and evaluated.

In our 1996 Annual Report, we updated our comments on actions taken by the Treasury Board Secretariat and the Department of Finance in response to our 1994 comments and recommendations. We reported that the Secretariat and the Department had begun to address the Province's cash management program.

Although Government has taken steps to address some of the comments and recommendations made in our 1994 Annual Report, all issues have not yet been resolved. A Treasury Management Committee was created in 1995 and was expected to address our concerns by developing a treasury management strategy for Government.

Update

As a result of our follow-up review, we report that the Department of Finance has indicated that the Treasury Management Committee has made progress towards the development of a formalized treasury management program. Treasury Board Secretariat has indicated that the Treasury

Management Committee is analysing and evaluating several cash management issues. The Committee will also be considering the opportunities available with the purchase of a new software package for Government.

4.2.5 Pension Plans
(1994 Annual Report, Part 4.5)

Introduction

In 1994, we conducted an examination and assessment of Government's compliance with the provisions of the *Pension Benefits Act* and *Regulations* relating to all registered pension plans in the Province. That review indicated that:

- Government had not complied with certain sections of the *Pension Benefits Act* relating to pension plans generally in the Province. Specifically, the Superintendent of Pensions, appointed by the Government, had not completed reviews of pension plans to determine compliance with the *Pension Benefits Act* and *Regulations*. Also, the Superintendent had not reported to the Minister of Finance on the affairs of the Office and, as a result, the Minister had not tabled the report in the House of Assembly as required by the Act.
- Government had not developed a plan to address its unfunded pension liability.
- Government had not complied with the requirements of the *Pension Benefits Act* and *Regulations* in the administration of its own pension plans since it had not completed actuarial reviews for all of its pension plans as required.

Update

As reported in the update contained in our 1996 Annual Report, the Department of Finance has taken action with respect to compliance with the *Pension Benefits Act* and *Regulations* in the administration of its own pension plans. All plans have had an actuarial review performed within the last three years as required by the legislation.

The recommendations relating to the development of a plan to address Government's unfunded pension liability are now discussed in our *Report of the Auditor General to the House of Assembly on the Audit of the Financial Statements of the Province for the Year Ended 31 March 1997*. As indicated in that report, Government has taken action to address the unfunded liability of the Public Service Pension Plan and is giving further consideration to a plan to address the unfunded liability of the Teachers' Pension Plan. While these measures will favourably impact the unfunded liabilities, we are still concerned with the extent of the Province's overall liability. As at 31 March 1997, the total unfunded pension liability reported in the consolidated financial statements of the Province was $2.943 billion.

Superintendent of Pensions

As reported in the update included in our 1996 Annual Report, the recommendations resulting from our review of the Superintendent of Pensions have not been completely addressed. The action taken on each of our recommendations is as follows.

- Our first recommendation was that Government should appoint a Superintendent of Pensions who is independent of Government. In response, the Department of Finance advised that, in its view, there was sufficient independence within the Act to warrant that the Superintendent can be an officer of the Department of Finance and should remain an employee of Government.

  During 1996, the responsibilities of the Office of the Superintendent were reorganized and relocated from the Department of Finance to the Department of Government Services and Lands. Officials at these departments still hold the view that the Superintendent should remain an employee of Government.

- Our second recommendation was that the Superintendent of Pensions should take an active role in ensuring compliance with the *Pension Benefits Act* and *Regulations* through inspections of employers' records. In response, the Department advised that the review and analysis of pension plan documents was adequate to ensure compliance with the Act and Regulations and that actual audits of plan documents and files were not necessary, except in cases where the Superintendent has concerns regarding compliance.

  In our 1996 update it was noted that officials with the Department of Finance had advised that the Department intended to introduce cyclical reviews of plans to check for compliance with the Act and Regulations. As well, it was indicated that a proposed new *Pension Benefits Act* would include provisions placing increased responsibilities on plan administrators for information filing and reporting.

  As of November 1997, cyclical reviews had not commenced. A new *Pension Benefits Act, 1997* received Royal Assent on 19 December 1996. The new Act includes enhanced information filing and reporting requirements for plan administrators.

- Our third recommendation was that the Superintendent of Pensions should prepare a report on the affairs of the Office for the Minister of Finance so that it may be tabled in the House of Assembly as required by the Act. In response, the Department advised that annual reports had not been submitted to the Minister of Finance but that in future a report would be prepared each year for presentation to the House of Assembly.

  As indicated in our 1996 update, a report was filed by the Superintendent of Pensions with the Minister of Finance on the administration of the *Pension Benefits Act* for the 1994-95 fiscal year and the Minister tabled the report in the House of Assembly in May 1995. A report for the 1995-96 fiscal year has been drafted but at the time of our review had not been submitted to the Minister for tabling in the House of Assembly. The new *Pension Benefits Act, 1997* does not contain the annual report requirement contained in the prior Act. This is of concern in that an accountability mechanism that had been in place has now been removed.

4.2.6 Current Account Revenue (1994 Annual Report, Part 4.6)

Introduction

The Province, for the year ended 31 March 1997, earned approximately $1.5 billion in provincial taxes, representing 49% of total revenues. The major source of provincial taxes is the Retail Sales Tax which was reported at $566 million. The Tax Administration Branch of the Department of Finance is responsible for the administration of all provincial taxes, except Personal and Corporate Income Taxes of approximately $682 million, which are administered by the Fiscal Policy Division. In 1994, we performed a review of the Tax Administration Branch to assess the various aspects of general management practices and to determine whether adequate management systems were in place to ensure that audit and collection activities related to retail sales tax were carried out in accordance with established objectives and relevant legislation and guidelines. We concluded that most aspects of the Branch's management practices and audit and collection activities were not adequate and should be improved.

Update

Since our 1994 review, the Federal and Provincial Governments have agreed to harmonize sales tax. As a result of the allocation of Branch resources to tax harmonization negotiations and the uncertainty associated with the anticipated changes, little progress has been made in implementing our 1994 recommendations. The status of the action taken on our recommendations is outlined as follows:

Management Practices

1994 Recommendations

A strategic planning process should be initiated.

The Department should conduct formal performance evaluations on a regular basis. Staff should be involved in the determination of individual performance objectives and the means by which their performance will be measured.

The Department should develop clear policies to provide guidance to managers in responding to staff performance.

Action Taken

The Department indicated that a meeting was held with the Public Service Commission in October 1995 to discuss strategic planning and performance evaluation; however, strategic planning has been put on hold during Federal/Provincial negotiations regarding the harmonization of the Provincial Retail Sales Tax and Federal Goods and Services Tax.

1994 Recommendation

The Department should develop and implement a training needs assessment program and the resulting training plan.

A standard training course for new staff should be developed.

Action Taken

The Department indicated that the Information, Rulings and Training section has been reinstated and is responsible for providing training in tax legislation, audit, collections and other areas. A two week training package has been developed and used to provide orientation and training for new audit staff.

1994 Recommendation

The Branch should consider the merits of using the Collection Success Statistics *and* Audit Statistics *reports in evaluating individual performance once the weaknesses in these reports are addressed.*

Action Taken

In the Department's view, the *Collection Success Statistics* and *Audit Statistics* reports were never intended to be a tool for evaluating individual performance of staff. Given the tax harmonization, the Department does not believe the benefits of major modifications to the Taxation Information Management System (TIMS) would be of any significant value to Tax Administration at this time. TIMS will be reviewed as the future role and responsibilities of Tax Administration are evaluated during strategic planning.

1994 Recommendations

Regular meetings, with formal agendas and minutes, should be held among the various groups at all levels within the Branch and Sections.

Minutes should be circulated where appropriate.

Action Taken

The Department indicated that regular meetings are being held among the managers within the Branch and formal minutes are kept and circulated where appropriate.

Audit and Collection Activities

1994 Recommendation

The Branch should review its current policies and procedures for the selection of routine audits to ensure adequate audit coverage.

Action Taken

The Department indicated that no further modifications to the priority selection model are planned due to harmonization. It indicated that during the wind down phase the Department will be systematically reviewing all accounts and, based on this analysis, final audits will be completed.

1994 Recommendations

The Branch should ensure that audit programs and procedures are developed and used on a consistent basis in accordance with stated policies.

Policies should be reviewed on a regular basis by the Branch to ensure concerns or suggestions for change are addressed on a timely basis.

Action Taken

The Department indicated that general audit programs have been developed; however, the audit approach depends on the adequacy and type of records being audited. Audit Managers review all audit files to ensure necessary audit procedures are completed and that the audit approach is appropriate. The Department believes that the required resources needed for a detailed analysis of audit procedures and programs would provide no significant benefit.

1994 Recommendation

The accounts should be reassigned to collection officers in accordance with Branch policy.

Action Taken

The Department has indicated that staff resources have decreased due to the harmonization of provincial and federal sales taxes and that bulk reassignment of accounts would not be an efficient use of these limited resources.

1994 Recommendations

Accounts should not be classified as doubtful until they meet the criteria defined in policy.

All accounts considered doubtful of collection should be reviewed on a regular basis to determine any change in collectibility status.

Action Taken

The Department indicated that it has taken steps to ensure that accounts classified as doubtful meet the criteria defined in policy are reviewed on a regular basis and reclassified where required.

1994 Recommendation

For those accounts where delinquency persists and collection efforts are unsuccessful, appropriate and timely action should be taken.

Action Taken

The Department indicated that it will be making a concerted effort to explore every available method of clearing all outstanding balances in a manner that will ensure the most efficient use of its resources.

1994 Recommendation

Procedures regarding the issuing of clearance certificates should be expanded to include management reviews of the seller status to determine whether an audit should be performed before the certificate is granted.

Action Taken

The Department indicated that, due to the volume of clearance certificate requests received, an audit of each of these accounts on a timely basis is not possible and, consequently, "qualified" certificates are issued subject to audit. The

Department indicated that all requests are reviewed to ensure there is no outstanding account balance and to determine whether the circumstances warrant an immediate audit.

1994 Recommendations

The Branch should exercise its authority under the Retail Sales Tax Act *relating to security deposits when warranted.*

Appropriate and timely action should be taken against sellers who have operated without a registration certificate.

Action Taken

The Department indicated that with the harmonization of provincial and federal sales taxes effective 1 April 1997, all Retail Sales Tax accounts have been terminated and, therefore, security deposit and registration certificate issues are no longer relevant.

4.2.7 Credit Union Deposit Guarantee Corporation (1995 Annual Report, Part 3.12)

Introduction

Credit unions are registered under and governed by the *Co-operative Societies Act* and its related *Regulations*. The Act provides for the appointment of a Registrar of Credit Unions (the Registrar) and the establishment of the Credit Union Deposit Guarantee Corporation (the Corporation). The Registrar is appointed by the Lieutenant-Governor in Council while the Corporation's six member Board is appointed by the Minister of Finance with the Registrar serving as chairperson.

As at 31 December 1996, the provincial credit union system consisted of 16 credit unions with a total membership of approximately 33,400. The credit union system had approximately $277.6 million in total assets, of which $227.0 million, or 82%, were loans receivable. The system reported a liability for member deposits of $269.0 million with an additional $6.1 million in total equity. Total equity was comprised of approximately $5.3 million in share equity and $.8 million in retained earnings.

In 1995, we made recommendations that would improve the Corporation's accountability framework, the adequacy of systems and procedures to monitor the activities of credit unions, and compliance with the *Co-operative Societies Act* and *Regulations*.

Update

The Corporation has acted upon many of our recommendations while others will be addressed when the proposed *Credit Union Act* is proclaimed. With respect to these and other recommendations, the status of the action taken in these areas is as follows.

Accountability Framework

The *Credit Union Act*, as passed by the House of Assembly but not yet proclaimed, makes provisions for the objectives of the Corporation and Registrar. In addition, the Corporation has obtained the services of a strategic planning consultant to aid in its strategic plan which is currently 80% complete.

A combined balance sheet and income statement have been included in the Corporation's publication, *The Newfoundland and Labrador Credit Union System - 1996 in Perspective*, and actual guaranteed member deposits were reported in its 1996 Annual Report. Together these reports provided sufficient and adequate information to report on the activities of the Corporation and the credit union system.

The Corporation determines the adequacy of its guarantee fund by comparing its size to other provincial guidelines regarding fund sizes. As at 31 December 1996, the Corporation's deposit guarantee fund was $4.3 million (1994 - $3.5 million), an increase of 23%. The Corporation considers its calculation for the Province's exposure to be an appropriate estimate. Over the past three fiscal years the Corporation has only paid out $177,495 as assistance to credit unions, with no exposure to the Province.

Monitoring Process

On site examinations are now conducted on a two-year rotational basis. The Corporation completed seven examinations so far in 1997 with another one or two planned for the remainder of the year. Nine examinations are planned for 1998. In addition, all credit unions submit budget information with their monthly financial reports. Written explanations for variances are not reported; however, major variances are red flagged for follow-up.

The proposed Regulations to the new Act are to include a provision which requires credit unions to report their allowance for doubtful accounts as per the Canadian Institute of Chartered Accountants' generally accepted accounting principles. These principles provide for a secondary allowance to be set up to recognize the effects of regional economic conditions.

The new Act will provide clearer criteria when intervention should take place. The Corporation contends that the intervention process cannot be limited to a mechanical process as many variables come into play when ranking credit unions. As at 31 December 1996, the Corporation had 10 credit unions on its Watchlist with 4 of these under Supervision.

Compliance with the Act and Regulations

Credit unions still do not always adhere to the Act and Regulations; however, the Corporation and Registrar are aware of all non-compliances through their monitoring activities and corrective actions are taken where necessary. Problems still exist in the lateness of required submissions; however, the new Act will provide corrective measures for credit unions which do not comply with the Act and Regulations.

Capital adequacy reserves of 5% of total assets were to be attained by all credit unions within 10 years, with 31 December 1996 being the fifth year. As at 31 December 1996, the credit union system had a capital adequacy reserve of approximately $6.1 million or 2.2%, a deficiency of approximately $7.8 million. This is an improvement since our 1994 review when the reserve was $3.1 million or 1.3%; however, 5 out of the 16 credit unions still showed negative capital adequacy reserves and 2 had not maintained reserves over 1%. Recent capital adequacy plans submitted in 1997, show four credit unions that projected they will not meet their capital adequacy of 5% by the year 2001.

During 1996, the Corporation changed the way it assesses its levy for each credit union to ensure that credit unions which have maintained their capital adequacy reserve receive an incentive on their levy premium.

4.2.8 Newfoundland Municipal Financing Corporation (1995 Annual Report, Part 3.13)

Introduction

The Newfoundland Municipal Financing Corporation is a Crown agency established under the authority of the *Municipal Financing Corporation Act*. The Corporation provides long-term financing for the capital requirements of municipalities. The Corporation raises funds to refinance municipal loans by the issuance of debentures in the bond market. Figure 1 shows the financial position of the Corporation as at 31 March 1997 with comparative information as at 31 March 1996.

Figure 1

Newfoundland Municipal Financing Corporation
Financial Position
31 March
($ 000's)

	1997	1996
Assets		
Cash	$ 63,768	$ 11,138
Loan instalments due and unpaid	5,492	5,556
Accrued interest receivable	12,287	15,681
Loans receivable	386,655	480,452
Deferred charges	2,121	2,797
	$470,323	$515,624
Liabilities and Deficit		
Accounts payable	$ 48	$ 401
Accrued interest	16,023	17,930
Debenture debt	442,541	499,525
Deferred revenue	4,511	-
Reserve fund	9,000	-
Deficit	(1,800)	(2,232)
	$470,323	$515,624

Source: 1997 Audited Financial Statements

In 1995, we reported several findings and recommendations regarding our review of the Corporation. Our review was designed to assess whether management practices were adequate to provide information to management and the Board of Directors for decision making and control of the operations of the Corporation and the impact of the municipal debt on the Corporation and the Province.

Update

The Corporation has taken some action that will address certain of our findings and recommendations. To date the following actions have been taken:

- The cash position of the Corporation has improved due to municipalities refinancing their loans with banks and the Province advancing $9 million to mitigate arrears with respect to municipal loans. The Corporation has put $40 million into its sinking fund and issued $27 million in new loans without borrowing additional funds. Currently the Corporation is purchasing Government of Canada stripped coupons with the money received from municipalities that refinance their loans with banks. These coupons mature at about the same time the loan payments from the municipalities would be due.

- The Corporation is now in the final stages of implementing its new loans management system which is scheduled to go on line at the end of January 1998. Once this system is implemented, the Corporation will look at getting an integrated accounting system and developing a policy and procedures manual.

Although the Corporation has addressed some of the findings and recommendations made in our 1995 Annual Report, all issues have not been resolved as outlined below.

Financial Position

Although its cash position has improved, the Corporation has still not addressed the problem of delinquent accounts. Since 1995 approximately $10.2 million in loan arrears have been refinanced for 70 municipalities. As at 31 October 1997, 48 of these loans were in arrears again, 6 had been refinanced with chartered banks and only 16 loans had no arrears.

Cash Flow Forecasts

The Corporation's cash flow forecast projects a cash surplus of $13 million by the year 2013 when all current loans receivable are collected and all debentures are repaid. This forecast assumes an annual borrowing and lending program of $20 million. The cash flow projection showing only the cash flows from the Corporation's current portfolio projects a cash deficit of $26 million by the year 2013 assuming a 6% interest rate on short-term investments and 4¾ % on overdrafts. This appears to be an improvement from our original report when the deficit was expected to be $39 million; however, the original projection assumed a 6% interest rate for both short-term investment and overdrafts. If we apply this assumption to the current forecast the deficit will be approximately $28.5 million.

The validity of the assumption that municipalities will borrow $20 million per year is also questionable considering the following:

- Many municipalities are now obtaining cheaper financing with the chartered banks. Fifty-three municipalities have already paid off their Newfoundland Municipal Financing Corporation loans with cheaper bank loans.
- Many municipalities cannot borrow additional funds due to their poor financial position. One hundred twenty municipalities have loan arrears with the Corporation as at 31 October 1997.

Impact of Municipal Debt

The Corporation's accounting system still does not provide information on loan amounts paid by the Province and municipalities. Information received from the Department of Municipal and Provincial Affairs disclosed that in 1996-97 the Corporation received $97.1 million in principal and interest payments related to regular municipal debt repayments and $60.6 million from the chartered banks as a result of refinancing. The Province paid $67.8 million (70%) of the $97.1 million while municipalities contributed $29.3 million (30%). The Province's portion has increased over the 65% level reported in the 1995 Report. This increase can partly be explained by the refinancing of the municipal portion of loans with the chartered banks.

4.2.9 Current Account Revenue (1995 Annual Report, Part 3.14)

Introduction

In 1994, we conducted a review of the audit and collection activities for retail sales tax at the Department of Finance. In 1995, we extended our review of retail sales tax collection activities and also conducted an additional review of the audit and collection activities for gasoline, tobacco and payroll taxes.

Government's cash source provided by these taxes has increased from a total of approximately $487 million in 1986 to $827 million in 1997.

In 1995, we concluded the following with respect to the Department's audit and investigation systems and practices:

- efforts to identify unregistered businesses for retail sales tax and payroll tax were inadequate;
- there was no regular review or monitoring of taxpayer's information returns for gasoline, tobacco or payroll taxes to ensure they were complete, accurate and filed by the required deadlines;
- management information systems were inadequate, resulting in a lack of readily available information on which to base the selection of registrants for audit, or to identify those taxpayers who were not complying with tax legislation;
- there was no systematic process for the selection of tax audits for gasoline, tobacco or payroll taxes;
- audit coverage for gasoline, tobacco and payroll taxes was low which impeded the enforcement of tax legislation; and

- once audits were selected, they were not adequately planned nor conducted in a consistent manner.

With respect to the Department's tax collection systems and practices we concluded that:

- collection policies for retail sales tax and payroll tax needed to be clarified and more rigorously enforced;
- the Department did not always comply with collection policies relating to the suspension and termination of licences and the placing of delinquent taxpayers on Government's payment interception list;
- there was inadequate supervision of collection activities for retail sales tax and payroll tax;
- the Department had not established any program objectives or performance indicators, and there was no operational planning performed to ensure that adequate tax enforcement and collection activities were planned; and
- the Department was not providing the House of Assembly with information that is required to hold the Department accountable for its use of public resources in conducting tax audit and collection activities.

Update

During 1997, we asked the Department of Finance to inform us as to the progress made on our 1995 recommendations. As outlined below, the Department has taken action on some of our recommendations; however, many still need to be addressed.

Audit and Investigation Systems and Practices

1995 Recommendations

The Department should develop a process to more actively identify unregistered businesses who should be paying retail sales and payroll tax to Government.

The Department should develop a process to regularly monitor and follow up on outstanding registration returns for payroll tax with a view of determining whether any of these businesses should be registered with the Department and remitting this tax to Government.

Action Taken

The Department indicated that it has entered into a cooperation agreement with the Federal Government covering tax evasion, tax avoidance and the underground economy. Under this agreement the Department is able to share information about tax payers. This agreement enables the Department to more efficiently audit taxpayers and increases the likelihood of identifying unregistered businesses. The Department also indicated that it regularly requests from the Federal Government a listing of all companies with payrolls that equal or exceed $100,000. This increases the likelihood that payroll tax non-registrants will be identified.

1995 Recommendation

The Department should increase efforts to effectively monitor taxpayer's information returns to ensure they are complete, accurate and filed by the required deadlines.

Action Taken

The Department indicated that this issue will be addressed during the receivable analysis presently ongoing for the Tax Administration Branch, as part of the review of the ORACLE based accounting system being performed by the Government Accounting Division of the Treasury Board Secretariat.

1995 Recommendation

The Department should ensure that tax management information systems maintain accurate and appropriate information to assist in targeting and selecting audits. This type of information would include a history of registrant activity, audit dates and the results of these audits. This information would be more useful if available by categories including industry sector, business size and registrant location.

Action Taken

The Department indicated that it has taken action to correct this situation by requesting funding to design and implement management information systems to adequately monitor these taxes; however, to date, it does not have the resources necessary to effect the required enhancements. The Department also indicated that the Government Accounting Division of Treasury Board Secretariat is presently developing a Government wide ORACLE based accounting system. As part of this review, the various Tax Administration accounts receivable packages are being analysed for purposes of bringing them into ORACLE or developing a new system to allow interface with ORACLE.

1995 Recommendations

The Department should perform advisory visits for all new registrants and increase audit coverage of gasoline, tobacco and payroll tax to improve enforcement of tax legislation.

The Department should review the method of audit selection for payroll tax with a view of ensuring that all taxpayers, whether or not registered for retail sales tax, have an equal chance of being audited and appropriate audit coverage is obtained.

Action Taken

The Department indicated that it has several initiatives that will increase audit coverage including a cooperation agreement with the Federal Government covering tax evasion, tax avoidance and the underground economy. As previously reported, under this agreement the Department is able to share information about taxpayers. This agreement enables the Department to more efficiently audit taxpayers and increases the likelihood of identifying unregistered businesses. In addition, the Department regularly requests from the Federal Government a listing of all companies with companies that equal or exceed $100,000. This increases the likelihood that payroll tax non-registrants will be identified.

1995 Recommendation

The Department should ensure that all audits have a pre-approved audit plan, that standard audit programs are used, and that the audit files are subsequently reviewed and approved by a supervisor.

Action Taken

In the Department's view, sufficient guidance is provided by Section 8 of the Audit Manual and all audits are ultimately reviewed and approved by an Audit Manager. This process ensures that the audit procedures are appropriate and completed for all audits. The Division has audit programs that have been developed to be used as guides only and the type of audit approach will depend on the adequacy and the type of the records being audited.

Tax Collection Systems and Practices

1995 Recommendation

Accounts should be reassigned in accordance with Branch policy.

Action Taken

The effect of harmonization has resulted in a loss of staff in collections and, as a result, each collector is now responsible for a larger number of accounts. It is the Department's view that the bulk reassignments would not be an efficient use of resources at this time as it takes more time to become familiar with a large number of accounts.

1995 Recommendation

Available collection actions should be more rigorously pursued.

Action Taken

In the Department's view, its collection techniques are varied and outstanding balances are rigorously pursued. While the Department recognizes that it will not have a 100% success rate as some businesses will always fail, it indicated that its collection actions result in a write-off rate of just 1/3 of 1% of revenue.

1995 Recommendation

The Department should ensure that once a registrant's licence has been suspended or terminated, appropriate action is taken to ensure that the registrant's business does not operate. If the registrant is later re-instated, the Department should also ensure that adequate security is posted with the Department.

Action Taken

Effective 1 April 1997, all accounts have been terminated because of harmonization. The use of terminations as a collection technique has therefore become irrelevant.

1995 Recommendation

The Department should ensure that all delinquent accounts are placed on Government's intercept listing.

Action Taken

The Department indicated that it has implemented a manual procedure to effect improvements in this area; however, if the entire tax base was added to the intercept listings it would adversely impair the current system. The necessary resources have not been available to implement a request made to the Government Accounting Division to develop and implement an automated process to ensure that all taxpayers in arrears are added to the intercept listing.

1995 Recommendation

The Department should ensure collection procedure manuals clearly outline both the order of action and the expected elapsed time between these actions.

Action Taken

In the Department's view, the current Collection Manual provides sufficient guidance to enable collectors to effectively perform their duties.

1995 Recommendation

The Department should periodically review the status of doubtful accounts with a view of obtaining a more timely approval for remission or write-off of those accounts deemed uncollectible.

Action Taken

The Department agrees that the collectible amounts should be written-off on a timely basis and it is presently reviewing its doubtful accounts for recommendation to Treasury Board for write-off.

1995 Recommendation

The Department should establish quantitative and/or qualitative performance objectives and production targets for tax collections for both collection staff and regional offices. This would help facilitate effective monitoring of the performance of collectors and regional offices and highlight potential problem areas which may warrant further investigation.

The Department should perform regular functional audits on all regional offices to ensure that Departmental policies are being complied with and that appropriate and consistent collection activities are being carried out.

More formal guidelines or policies should be established for supervisors on the expected extent and nature of their review.

Supervisory controls should be reviewed to ensure that departmental policies over areas such as the reassignment, supervision and termination of accounts are complied with and that increased direction is provided to collection staff to ensure a more consistent application of collection efforts.

Action Taken

The Department indicated that enhancements to its Tax Information Management System (TIMS) have been made; however, given the current environment, further refinement of TIMS is not planned at this time. As noted previously, the Department does not presently have the resources to perform regular functional audits of regional offices. It is satisfied that departmental policies over areas such as the reassignment, suspension and termination of accounts are complied with and collection staff vigorously pursue the collection of arrears.

1995 Recommendation

The Department should take appropriate action to correct the weaknesses identified in the management information systems.

Action Taken

The Department indicated that the Government Accounting Division of Treasury Board Secretariat is presently developing a Government wide ORACLE based accounting system. As part of this process, Government Accounting is reviewing the various Tax Administration accounts receivable packages for purposes of bringing them into ORACLE, or developing a new system to allow interface with ORACLE. Although the Department believes its present reports provide the information necessary to monitor the collection process, it intends to discuss our concerns with the Government Accounting Division as ORACLE is an initiative with Government-wide implications.

Planning and Reporting

1995 Recommendation

The Department should determine objectives for the various tax programs, establish performance indicators against which these objectives can be measured and implement operational plans to attain these objectives.

Action Taken

The Department indicated that, during its present transitory phase, it is focused on the wind down of the Retail Sales Tax through auditing and collection procedures. The Department is revising its review of the implementation of a strategic and operational plan in light of a new role resulting from harmonization and the significant effect this will have on its auditing and collection efforts.

1995 Recommendation

The Department should prepare an annual report which contains relevant, reliable and timely information to assist the Legislature in holding the Department accountable for its use of public resources.

Action Taken

The Department indicated that the preparation of an annual report will be considered in conjunction with a strategic and operational plan.

Department of Justice

4.2.10 Registrar of the Supreme Court (1994 Annual Report, Part 4.7)

Introduction

The Estates Office of the Registrar of the Supreme Court of Newfoundland administers the estates of deceased persons upon appointment by the Supreme Court and the trusts of minors and mentally disabled persons upon appointment by the

Court or by virtue of the *Mentally Disabled Persons' Estates Act*. It also administers funds paid into Court or to the Registrar under various statutes, including the *Judicature Act*. The financial statements of the Registrar for the year 31 March 1997 reported total assets held in trust of $20 million.

In 1994, we concluded that practices followed by the Registrar in fulfilling legislated responsibilities were inadequate. We made recommendations at that time to assist the Registrar in the stewardship role of acting in the best interest of clients.

Update

The Registrar has taken satisfactory action on most of our recommendations made in 1994. However, with respect to the other recommendations for the improvement of stewardship at the Estates Office, the status of the action taken is outlined as follows:

Closing of Estate Files

1994 Recommendation

A systematic basis for anticipating the expected date of closure of files (deceased persons) and final discharge of estates should be implemented to ensure accounts do not remain outstanding for unreasonable lengths of time in future.

Action Taken

The Estates Office has not yet developed a formal basis to anticipate the date of file closure for deceased persons' estates. However, all current or on-going files are regularly reviewed and the number of older files has been reduced by approximately 150 since the 1994 report recommendations.

Delays in Handling Client Matters

1994 Recommendation

Administrative matters such as filing required documents on behalf of clients, should be dealt with on a timely basis and policies should be developed to document the process of handling these various matters. These policies should include a requirement that all files be reviewed on a regular basis to identify outstanding matters.

Action Taken

The Estates Office has implemented policy in response to many of the recommendations; however, the Estates/Trust Policies and Procedures section is not yet complete. For example, no policy exists on the regular review of client files or the settlement of client accounts on a timely basis. Although most policies are now in place, they have not as yet been formalized in the Estates policy and procedures manual.

Policies and Procedures Manual

1994 Recommendation

Standard policies and procedures relating to the administration of estates and trusts should be implemented to ensure all necessary actions are performed on a regular basis. These should be formally documented by way of a manual issued to all staff.

Action Taken

The Estates Office indicated that the completion of the manual is still on-going.

4.2.11 Office of the High Sheriff (1994 Annual Report, Part 4.8)

Introduction

The Office of the High Sheriff acts as the enforcement arm of the Supreme Court of Newfoundland and is responsible for jury management and court security in the Province. The Office also enforces judgements issued by the Court including the service of criminal and civil documents, execution orders, and the seizing and selling of real and personal property.

The Office of the High Sheriff began preparing financial statements in 1992-93. Our Office has performed attest audits on these financial statements since that time. For the years ended 31 March 1993 and 1994, we issued a denial of opinion due to serious deficiencies in internal controls which made it impossible to gather sufficient, appropriate audit evidence to render an opinion. At that time, a recommendation was made to ensure the Office of the High Sheriff took immediate steps to address these deficiencies with the objective of obtaining an unqualified auditor's opinion.

In 1995, we reported that we considered the progress on the recommendations to be satisfactory in all areas. Actions taken have resulted in an unqualified opinion being expressed on the financial statements of the Office of the High Sheriff for the year ended 31 March 1996. We also reported that further required improvements in internal controls were to be addressed during the design of a new accounting system in conjunction with the passage of the *Judgement Enforcement Act*. Such improvements include the use of a computerized general ledger and the ability to produce periodic reports for monitoring of financial operations.

Update

The *Judgement Enforcement Act* was implemented on 1 June 1997 and a new computerized accounting system was implemented during the period from 1 June to 31 August 1997. In addition, the enforcement of small claims judgements has been added to the mandate of the Office of the High Sheriff. This has added greatly to the workload of the Office of the High Sheriff. As a result of these changes, the Office of the High Sheriff requested a deferral of the financial statement audit for the year ended 31 March 1997. Consequently, comments on further action taken by the Office of the High Sheriff concerning improvements in internal control will be deferred until we review the new system during the financial statement audit for the year ended 31 March 1997.

4.2.12 Board of Commissioners of Public Utilities (1995 Annual Report, Part 3.5)

Introduction

The Board of Commissioners of Public Utilities is an independent, quasi-judicial regulatory agency appointed by the Lieutenant-Governor in Council, and operates under the *Public Utilities Act*. The Board's primary responsibility is the regulation of the electric utilities in the Province to ensure that the rates charged are just and reasonable, and that the service provided is safe and secure. Other responsibilities include the setting and regulation of the benchmark rates for automobile insurance, as well as the regulation of bus service which originates and ends on the Trans Canada Highway. Appeals from decisions of the Board lie to the Newfoundland Supreme Court, Court of Appeal. For administrative purposes, the Board submits an annual report to the Minister of Justice.

In 1995, we made recommendations to improve management practices, improve efforts to ensure all legislated responsibilities are met, and to develop formal policies and procedures for the hiring of consultants.

Update

The Board has taken satisfactory action on our recommendations. Specifically:

Management Practices

1995 Recommendation

The Board should continue efforts to improve management practices. Specifically:

- *There has been a vacancy in Board membership for several years, the Board lacks staff positions such as an electrical engineer and an auditor to carry out specific responsibilities, and there is no policy and procedures manual.*

- *There are no strategic or operational plans in place.*
- *The Board's annual report as an accountability document could be improved by linking results with goals and objectives.*
- *The budgeting process is adequate except that the allocation of shared costs between divisions needs to be updated to reflect recent changes in the Board's operations.*

Action Taken

The Board continues to operate with one full-time commissioner position vacant; however, five part-time commissioner positions have been filled. The Board hired a permanent Financial and Economic Analyst and a temporary Compliance Auditor, and has also received approval to appoint a Senior Electrical Engineer and an Information Technology Officer. Policies and procedures have now been documented and included in the Board's Policy and Procedures Manual.

A mission statement has been adopted and an initial strategic plan is in process of being finalized.

The Board has also designed a new annual reporting format. This report includes the Board's mission as part of the new format. Once the Strategic Plan is completed, the Board stated that it will consider including goals and objectives as part of the report, or as a separate annual progress report.

The Board continues to budget its activities based on its lines of business of Public Utilities, Motor Carrier and Insurance. The Board has improved upon the allocation of shared costs among divisions by introducing weekly time reports for every member of the organization.

Compliance with Legislation

1995 Recommendations

Legislation should be amended to clarify its intent with respect to reductions in assessments and the disposition of surplus funds.

The allocation of shared costs should be clearly supported to ensure that relevant parties bear only the costs related to the regulation of their activities.

Annual reviews by the financial consultant should be performed on a timely basis.

The Board should continue in its efforts to audit insurance companies, including systematic and appropriate coverage of all insurers.

Action Taken

The Board conducted an extensive review of the *Public Utilities Act* and in April 1997 submitted to the Minister of Justice a list of housekeeping items that the Board has proposed. The Board has also compiled a list of other amendments that the Minister and the Lieutenant-Governor-in Council may wish to address.

The Board has improved upon the allocation of shared costs between divisions by introducing weekly time reports for every member of the organization.

The Board's financial consultants have completed the annual reviews of both Newfoundland and Labrador Hydro and Newfoundland Light and Power Company Limited in a timely manner. The Board has received the annual reviews of Newfoundland Light and Power Company Limited for the years ended 1994,1995 and 1996 as well as the annual reviews for Newfoundland and Labrador Hydro for the years ended 1994 and 1995. The 1996 annual review for Newfoundland and Labrador Hydro has recently been completed and the Board is expecting to receive a copy of this review in the near future.

The Board indicated that it has completed the audits of 24 of the registered insurance companies offering automobile insurance which the Board indicates represents 96% of the registered total direct automobile insurance premiums written in 1995. The Board also approved an automobile insurance compliance audit manual in March 1997 and a systematic basis for auditee selection on a cyclical basis. In addition, the Board has hired a temporary compliance auditor.

Hiring of Consultants

1995 Recommendations

The Board should develop formal policies and procedures for the hiring of consultants. The recommendations contained in Treasury Board's Guidelines Covering the Hiring of External Consultants should be considered in this respect.

Contracts should be in place for all consultants.

Action Taken

The Board has developed formal guidelines for the hiring of consultants. The Board indicates that major consultants are now hired through a call for proposals and a competition process, terms of reference exist for each engagement along with annual performance appraisals, and contracts are on file for each consultant.

Department of Education

4.2.13 Memorial University of Newfoundland
(1994 Annual Report, Part 4.9)

Introduction

In 1994 and again in our update in 1996, we concluded that the Department of Education did not have an adequate system of accountability in place over grants paid to Memorial University of Newfoundland. In addition, although the House of Assembly approved funding to the University exceeding $130 million annually, there was inadequate accountability over this funding.

As a result of our review we recommended that a system of accountability be established over grants to the University. This system should include, but not be restricted to, the following components:

- Roles, responsibilities and duties of the Department of Education and the University should be well defined and communicated. These should be included in legislation and further defined in policy.
- There should be adequate reporting to the Department of Education and the House of Assembly. This includes both financial and performance monitoring.
- The system of accountability should be strengthened by an independent audit process to assess the fairness of the University's representations on performance and to assess management systems and controls.

Update

An adequate system of accountability over grants paid to Memorial University of Newfoundland has not been established; however, there has been some discussion and correspondence with the Minister of Education and the Chair of the Board of Regents on a number of matters including the University's administration grant. The Department and the University have committed to work together on this issue and resolve it in 1998-99.

4.2.14 Monitoring of the College System
(1995 Annual Report, Part 3.7)

Introduction

For the 1996-97 fiscal year, the Department of Education spent $45.1 million towards funding of the provincial college system. Approximately

$3.8 million of this amount was contributed by the Federal government. In 1997-98 the Department's funding of the college system is expected to decline to $40.3 million with $2.7 million of this amount being funded by the Federal government.

In 1995, we concluded that the Department of Education did not provide adequate direction in planning and coordination for the college system, the funding process was not directly linked to the goals and objectives of the college system and the current monitoring and reporting was insufficient to provide adequate information on the operations of the colleges.

Effective 1 January 1997, the *Colleges Act, 1996* established one public college for the Province, the College of the North Atlantic (the College). Each of the previous five colleges continued separate financial operations to their fiscal year end, 31 March 1997.

Update

The Department has taken some action that will address certain of our recommendations. To date the following actions have been taken:

- Strategic and operational goals for the Department are now being established under the Province's new accountability framework guidelines. The Department will be responsible for submitting to Treasury Board a Departmental Plan which will consist of three key areas: operational plans (short and long-term goals), financial plans (three years) and communications plans.

- The College is currently in the process of preparing its strategic plan. The Department's Division of Corporate and Business Planning will be responsible for reviewing the College's strategic plan. In addition, the College is aware of its next three years funding levels and that it will have to develop contingency plans to offset any change in Provincial or Federal funding.

- During 1994-95, the Department commissioned a review of the relevancy of traditional approaches to apprenticeship training. A report *"Apprenticeship Training: Now and the Future"* made several recommendations on how to develop new approaches to the delivery of programs. Since then the Department has established a 9-point *Critical Path to Reform.* New plans of training were prepared for all trades, student log books were introduced, reviews of program changes are conducted three times a year, annual demand surveys are conducted with industry, registration reviews are conducted and an annual report is submitted.

- The College now has only one application database which is linked with all campuses. The system cannot generate one waiting list as they are still compiled by campus; however, each campus can get access to another campuses waiting list to determine if any seats are open.

- The *Colleges Act, 1996* was assented to 19 December 1996 to take effect 1 January 1997. The new Act requires an Annual Report to be submitted to the Minister. As per the new accountability framework guidelines, an annual reporting by the Department will be required to be submitted to Treasury Board which will include all aspects of the Department, including the provincial college system.

Although the Department addressed some of the comments and recommendations made in our 1995 annual report, all issues have not been resolved as outlined below.

Update on Prior Years' Report Items

Direction in Planning and Coordination

With regards to the monitoring of Federal funding of the college system, the Department still does not receive information with regards to direct Federal funding of college programs; i.e direct seat purchases or contract training. As a result it does not know the extent to which the college system is relying on this one source of funding.

The Department does not require the new College to submit, as part of its annual operating plan, a list of programs and the number of seats in each program. As a result, the Department cannot ensure that the College's annual plans are consistent with departmental priorities. In addition, the Department does not monitor program reviews to ensure these reviews are performed on a systematic and cyclical basis.

Funding

The funding process is still a block funding process and does not formally consider such activity bases as cost per student per program. Since funding is not based on students or programs, it is difficult for the Department to shift funding to encourage accessibility in a particular program and to ensure the College is efficient in the delivery of its programs.

Monitoring and Reporting

1. Costs and Productivity

The Department does not monitor student and program costs to ensure services are being provided efficiently. Course costing has not been performed by the Department since our 1995 review. At the time of our update, there was only one financial analyst with the Education Finance Section for primary, elementary and secondary, and post-secondary education.

With the establishment of the one college, the Department reviewed such areas as the number of campuses, student enrolments, and class sizes in determining what resource allocations would be most economical and efficient while still maintaining program effectiveness. However, information regarding class size, present classroom capacities, pupil/instructor ratios are not submitted to the Department on a regular basis to ensure the maximum utilization of resources.

2. Measuring College Achievements

Although a new student information system (SIS) has been developed, full implementation is not expected until 2001. The College is expected to submit student information twice a year using six different student information systems. New students are being tracked on the SIS system and continuing students are still being tracked on their old college systems. As a result, there are still inconsistencies in how the student information is submitted.

The cleaning of student data is still a time consuming task and creates timing delays. The latest compendium of student information produced by the Department is for the 1995 college year. Data for 1996 has been submitted but it is still not cleaned.

The latest Graduate Outlook report was published in 1993 for 1992 graduates. This report is expected to be published every year. The latest Post-Secondary Indicators Report was in 1995 for the year ended 1993-94. This report is published every 2-3 years with the next one due for the 1997 college year. This report provides actual data on performance indicators; however, standards for these indicators have not yet been established.

3. Financial Monitoring

Not only are there no policies and procedures documented for the monitoring and reporting of financial information for the College, no financial data has been received as of our update for the 1997-98 fiscal period. The quarterly financial report or cash flows for the new College have not been received. The Department has only been informed verbally by the College that it is within its approved budget.

With regards to the five former colleges, the 1996-97 audited financial statements, due 30 June 1997, have not been received as of our update; therefore, comparisons of actual to budget information have not been performed.

4.2.15 Westviking College of Applied Arts, Technology and Continuing Education
(1995 Annual Report, Part 3.8)

Introduction

In 1995, we conducted a review of the Westviking College of Applied Arts, Technology and Continuing Education. This review was undertaken to assess the accountability of the College to the Minister of Education and the House of Assembly. This report concluded that the College's accountability to the Minister and the House of Assembly was deficient in a number areas including financial and operational planning, performance monitoring, budgeting, resource utilization, management information systems and reporting.

Update

Effective 1 January 1997, the new *Colleges Act, 1996* established a one public college system for the Province and the Westviking College was dissolved. As a result, any further monitoring and review of this area will be included as part of our cyclical audits of Crown agencies and boards.

Department of Municipal and Provincial Affairs

4.2.16 Monitoring and Control of Municipal Debt
(1994 Annual Report, Part 4.10)

Introduction

In 1994, we reported on the extent of monitoring exercised by the Department of Municipal and Provincial Affairs over municipal debt and municipal financial management. Our review indicated that the Department did not adequately monitor and control the financial activities of the Province's municipalities. We reported that many municipalities were experiencing difficulties in meeting their debt obligations and that the Department did not have current financial information to determine whether municipalities had excessive or unmanageable debt obligations.

In 1996, following a review of action taken by the Department, it was concluded that the recommendations in our 1994 report had not been adequately addressed. Specifically, we reported that the Department did not have current financial data for all municipalities. The financial position of the Province's municipalities had not significantly improved and that a review of municipal debt reports received from chartered banks had not been implemented as a regular debt monitoring procedure. In addition, new debt had been approved for municipalities despite a lack of significant improvement in reported financial positions and a significant number of contraventions of legislative municipal reporting requirements were identified.

As at 31 March 1997, total municipal debt owed to the Newfoundland Municipal Financing Corporation (NMFC) was in excess of $404 million. Debt owed to NMFC has decreased from $502 million in 1996 mainly due to the fact that, during the year, 43 municipalities refinanced approximately $62 million of debt, previously owed to NMFC, with private lending institutions.

Update

Overview of Municipal Debt

1994 Recommendation

The Department should collect and maintain historical and current information on the growth and size of municipal debt. This summary information should be used to assist the Department in financial planning and decision making.

Action Taken

Financial statements provided by the municipalities are used by the Department to accumulate historical information on a municipality's long-term debt and debt charges. Our review indicated that of the 255 municipalities required to submit financial statements to the Department for the year ended 31 December 1996, 89 had still not submitted their 1996 financial statements to the Department as at 3 December 1997. In addition, 74 municipalities had not forwarded their 1995 financial statements.

Quarterly reports on the debt of municipalities, received by the Department from the chartered banks, are now used to update debt information used in an overall monitoring function; however, at the time of our review, information was not being received from one financial institution.

The Department has recently implemented a Local Government Profile System which is used to consolidate all information, including that on municipal debt, from various departmental databases into one accessible database. The system functions as an executive information system which also has query capabilities.

We conclude that the Department still needs to take further steps to ensure that information required for financial planning and decision making is submitted to the Department on a timely basis.

Impact of Debt on Municipalities

1994 Recommendations

The Department should monitor the financial position of municipalities on an ongoing basis.

The Department should also continue to monitor the plans of municipalities to bring their debt charges to a current status.

Action Taken

In our 1996 update, we reported that the financial position of the Province's municipalities had not significantly improved since our 1994 review, and that the Department continued to approve new debt for many of these municipalities. Based on a review of available financial information, we report again that the financial position of the Province's municipalities has not significantly improved. In particular, we note the following:

- Based upon information provided by the Department, total municipal debt at 31 December 1996 was estimated at $558 million (1995 - $469 million). This amount was comprised of $434 million owed to NMFC, $16 million owed to other government agencies and $108 million owed to private financial institutions.
- Of the 141 municipalities that provided audited financial statements to the Department for the year ended 31 December 1996, 67 reported deficits totaling $7 million.
- Total outstanding debt as at 31 December 1996 for the municipalities with populations less than 5,000 was $324 million or approximately $4,299 per household ($328 million and $3,955 per household in 1995). The average charge associated with this debt is $887 per household ($866 in 1995) while the average local revenue expected for these municipalities, based upon 1997 budget

submissions, is $757 per household ($743 in 1996).

- As at 31 March 1997, there were 153 municipalities in arrears on debt payments totalling $8 million to NMFC. This represents an increase of $2.4 million from the arrears of $5.6 million reported for 124 municipalities at 31 March 1996. During the 1996-97 fiscal year, debt totalling $1.1 million was refinanced for 12 municipalities that had been in arrears.
- During 1996-97, municipal operating grants totalling $31 million (1995-96 - $37.8 million) were paid to municipalities. The purpose of the grant is to assist municipalities in paying for essential services. Of the total grants paid, $4.5 million, or 14% (1995-96 - $7.2 million or 19%) was intercepted by NMFC to pay arrears on debt payments.
- During the 1996-97 fiscal year, 18 municipalities received new loans totalling $4.6 million while being in arrears to NMFC on existing loans. The Department has indicated that the financial position and the debt situation of municipalities is taken into account when approving any new capital works projects, barring extenuating health, environmental and servicing requirements.

As a result, we conclude that the Province's municipalities continue to experience significant financial difficulties. In addition, the Department continued to approve new loans to municipalities despite their financial position.

A significant initiative was made by the Department in the area of the management of municipal debt with the commencement of the Debt Relief Program in May 1997. The Program has targeted municipalities that spend in excess of 30% of their revenues received to service their debt load. Approximately 170 of the Province's 290 municipalities were judged to meet the eligibility requirements for this program. Financial analysts from the Department, working with municipal officials, intend to develop a plan for participating municipalities to improve their financial position. In connection with the program, Government intends to provide approximately $9 million over three years for debt reduction measures.

Compliance with Legislation

1994 Recommendation

The Department should monitor municipalities' compliance with the Municipalities Act. Appropriate policies and procedures should be implemented to reflect the intent of the legislation.

Action Taken

In our 1994 report and our 1996 update, we noted several instances of non-compliance with the *Municipalities Act*. Compliance with legislation remains a concern. Our follow-up disclosed the following instances of non-compliance with legislation:

- Sections 87 and 88 of the *Municipalities Act* provide for the timely receipt of audited financial statements of a municipality. Section 87 requires that the audit of a municipality's financial statements be completed within five months after the December year end. Section 88 requires that a copy of the audited financial statements be sent to the Minister within 30 days of the audit being completed. Current recording procedures do not include the date of receipt of financial statements in the Department's database, merely the fact that statements for a particular year have been received. However, as previously indicated, for the year ended 31 December 1996, 89 of the 255 municipalities required to submit financial statements to the Department had still not submitted their audited financial statements as of 3 December 1997.

- Section 74(2) of the *Municipalities Act* requires that a municipality submit its budget for the upcoming year to the Minister before 31 December. Our review of departmental information indicated that, of the 290 municipalities required to submit their 1997 budget by 31 December 1996, none had provided their budget to the Minister by the required deadline. As at 3 December 1997, 20 of these 290 municipalities had still not submitted their 1997 budgets.

In addition, we note that, although section 78 of the *Municipalities Act* requires the Minister to provide prior approval for a municipality to exceed its approved budget, these instances can not easily be prevented but usually can only be detected after the receipt of both the budget and financial statements.

The Department has indicated that it is presently in the process of reviewing the *Municipalities Act* with a view to modifying or removing what the Department feels are restrictive provisions of the Act.

4.2.17 Municipal Infrastructure Program (1995 Annual Report, Part 3.10)

Introduction

In 1995, we conducted a review to determine the financial viability of the Infrastructure Program administered by the Department of Municipal and Provincial Affairs and to determine whether the economic planning zones identified in the Strategic Economic Plan of the Province were considered when evaluating proposed projects to be funded under the Program. We concluded, among other things that:

- many municipalities were in poor financial condition and unable to finance their share of municipal infrastructure assets and the maintenance and replacement costs associated with these assets;
- municipalities did not have adequate monitoring systems and procedures to address areas such as revenue, expenditure, debt management and management reporting;
- municipalities did not have formal procedures in place to monitor the condition of their water and sewer systems;
- the Department had not prepared a plan and budget for the evaluation of the Infrastructure Program, as required by the Canada-Newfoundland Infrastructure Agreement; and
- there was no evidence of any correlation between the infrastructure development approved by Government and the direction of infrastructure growth outlined in the Province's Strategic Economic Plan.

For the years ended 31 March 1996 and 1997 respectively, total expenditures reported by the Department of Municipal and Provincial Affairs under the Assistance and Infrastructure Program were $133 million ($93 million capital, $40 million operating) and $120 million ($87 million capital, $33 million operating). Historically, the municipalities have financed the capital cost of their infrastructure assets through the Newfoundland Municipal Financing Corporation (NMFC) and other financial institutions. Total municipal debt owed to NMFC as at 31 March 1997 was in excess of $404 million.

Update

Financial Condition of Municipalities

1995 Recommendation

The Department should provide municipalities with direction as to adequate systems and procedures which should be in place to address areas such as financial management, debt management and reporting.

Action Taken

The Department has recently undertaken a number of initiatives in this area including:

- Required budget submissions from municipalities have been revised for the 1998 year to comply with Public Sector Accounting Recommendations issued by the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants.
- For the 1997-98 fiscal year, the Department introduced a Technology Purchase Program to assist municipalities in the purchase and installation of information technology. Objectives of the initiative are to assist municipalities in obtaining more efficient and effective management information systems and to facilitate electronic communication links between municipalities and the Department. The program is cost shared (40% municipalities, 60% Department) with a maximum departmental contribution to a municipality of $10,000. The Department has allocated a maximum limit of $500,000 to this program for the 1997-98 fiscal year.
- A Debt Relief Program was implemented in May 1997. The Program has targeted municipalities that spend in excess of 30% of local revenues received in servicing their debt load. Approximately 170 of the Province's 290 municipalities were judged to meet the eligibility requirements for this program. Financial analysts from the Department, working with municipal officials, intend to develop a financial plan for participating municipalities to improve their financial position. Areas to be reviewed under the program will include debt reduction, refinancing of long-term debt, taxation rates, and levels and types of service delivery. In connection with the program, Government has currently allocated approximately $9 million over three years for debt reduction measures.

1995 Recommendation

The Department should conduct property assessments on a timely basis, especially considering the impact of such assessments on a municipality's tax base.

Action Taken

The Department is no longer responsible for the direct delivery of real property assessment services. In April 1997, Government established the Municipal Assessment Agency Inc. pursuant to the *Corporations Act* of the Province. The Agency is responsible for providing assessments and related services to municipalities within the Province.

An official of the Agency informed us that all municipal assessments have been completed for the base date of 1 January 1996, in compliance with the *Assessments Act,* which requires all municipal assessments to be completed by 1 January 1998.

Monitoring of Infrastructure Assets

1995 Recommendation

The Department should provide direction to municipalities as to adequate systems and procedures which should be in place to monitor all infrastructure assets including roads, bridges, water and sewer systems, and drainage.

Action Taken

Officials of the Department indicated that, although there is no formal program to provide direction to the municipalities on monitoring infrastructure assets, direction is provided to municipalities on a frequent basis; however, this is primarily in response to requests from municipalities.

The Department still needs to address our 1994 recommendation to develop general guidelines to assist municipalities in the monitoring, maintenance and replacement of major classes of municipal infrastructure.

Program Evaluation

1995 Recommendation

The Federal-Provincial Management Committee should prepare a plan and budget for the evaluation of the Infrastructure Program.

Action Taken

The Management Committee adopted a Municipal Case Studies methodology as part of a National Evaluation Program. A cost-shared budget (50% Federal, 50% Provincial) of $100,000 was provided for this purpose. Two municipal case studies were conducted and the results of these studies were incorporated into a national evaluation report which was completed in August 1996.

Under an amendment to the Infrastructure Agreement dated 27 March 1997, additional funding of $31 million was provided for the program. The amending agreement contained a clause which required a revised plan and budget for the evaluation of the Infrastructure Program to be approved by the Management Committee within two months of signing the amendment. The Management Committee is presently awaiting direction from the Infrastructure Secretariat in Ottawa regarding the evaluation methodology (National Evaluation versus a Provincial Evaluation) to be used.

Strategic Economic Plan

1995 Recommendation

The Department should establish specific plans for the Infrastructure Program which are consistent with the Province's Strategic Economic Plan.

Action Taken

Officials of the Department indicated that the Province's Strategic Economic Plan is considered in planning the Infrastructure Program but that there are also other considerations such as the urgent needs of smaller communities not designated as growth centres and input from the Federal Government which contributes one third of the funding under the Infrastructure Program.

Although the Department is able to generate information on infrastructure projects at the economic zone level, the Department could not provide us with support to demonstrate that it is considering the Province's Strategic Economic Plan in planning the Infrastructure Program.

4.2.18 Newfoundland and Labrador Housing Corporation (1995 Annual Report, Part 3.11)

Introduction

Newfoundland and Labrador Housing Corporation is responsible for providing cost-effective housing to residents of the Province with priority given to those most in need. In fulfilling its mandate, the Corporation hires consultants such as engineers, surveyors, urban planners and marketing consultants on a regular basis.

In 1995 we conducted a review of the Corporation's policy and procedures for hiring external consultants. We concluded that there was no formal corporate policy addressing this issue, consultants were often hired without requests for proposals being called, and the engagement of consultants was not adequately monitored. We recommended that a corporate policy be developed to address the hiring of consultants and that consultant vendors be tagged and monitored on the accounts payable system.

Since our review, the Corporation has paid approximately $3 million to external consultants during the two year period ended 31 March 1997.

Update

The Corporation has taken action on our recommendations. Specifically:

- On 24 October 1997, the Corporation's Board of Directors approved a formal policy relating to the appointment of consultants. This policy is generally consistent with Treasury Board's *Guidelines Covering the Hiring of External Consultants*, with some modifications to adapt it for the Corporation's purposes.
- A method for tagging and monitoring expenditures to consultants has been implemented.

We were informed that, during the interim period prior to the adoption of the Corporation's policy, the Corporation was following the Treasury Board Guidelines. Our testing of this period, however, indicated some instances where formal terms of reference had not been prepared prior to the engagement of the consultant, and agreements for consulting services had not been signed by the Corporation and the consultant.

Department of Environment and Labour

4.2.19 General and Environmental Management Practices (1994 Annual Report, Part 4.11)

Introduction

In 1994 we conducted a review of the management practices and environmental management and control activities of the former Department of Environment and Lands. Our review was designed to assess whether policies and procedures were adequate to ensure compliance with relevant legislation and standards. We concluded that, in general, most aspects relating to the Department's management practices were not adequate and should be improved. In addition, the policies and procedures for environmental management and control activities were not adequate to ensure that the Department and all individuals and companies who emit pollutants into the environment (i.e. dischargers) complied with relevant legislation and standards.

In 1996, following our review of action taken by the Department, we concluded that the recommendations in our 1994 report had not been adequately addressed.

Update

In December 1997, we again visited the Department to determine the action taken on our 1994 recommendations. As a result of our review, we concluded that some of our recommendations had been adequately addressed but most have not been. Specifically:

Management Practices

1994 Recommendations

The Department should establish strategic and operational plans.

The Department's annual report should provide sufficient information on a timely basis to assist the Legislature in holding the Department accountable for its use of public resources.

The Department should continue its efforts to improve the roles, responsibilities and reporting relationships within its regional offices.

The Department should review its human resource management policies to address such areas as performance evaluations, employee training needs, position descriptions, and the monitoring of leave entitlement.

Action Taken

The Department indicated that it is in the early stages of a strategic planning process. The Department has begun to hold initial workshops on team building and planning. As part of the 1998-99 budget process, the Department has prepared and submitted a three year business plan in accordance with Treasury Board recommendations.

The Department has not prepared an Annual Report for submission to the House of Assembly since 1991-92.

The Department has indicated that its Executive has held meetings with regional staff. The Department is working to improve communications between headquarters and the regions and is involving all departmental personnel in a team building initiative with the assistance of an outside professional development firm.

The Department indicated that, although a performance evaluation process is available for use by all staff, it is optional, and not all divisions of the Department are completing these evaluations. The Department intends to have all divisions completing performance evaluations by the end of the current fiscal year.

The Department has a Training Development unit that has the responsibility for the identification of individual and group employee training needs. The unit identifies training requirements that are of a general nature and relies on line managers to identify training requirements that are of a technical nature. In addition, the Department recently completed a survey to identify training needs in the Information Technology area.

The Department indicated that there has been considerable work completed in updating position descriptions in the past two years; however, we found that all position descriptions are still not current.

Our review of the leave system currently in place at the Department indicated that the leave entitlements are up to date.

Environmental Management and Control Activities

1994 Recommendations

The Department should review existing legislation to ensure it is current and consistent with Departmental objectives.

The Department should maintain a current and complete inventory of all dischargers, discharges and discharge points.

The Department should implement a program to review existing permits to ensure all registered dischargers have current permits.

The Department should comply with its legislation which requires pesticide operators to maintain insurance.

The Department should ensure compliance with the Waste Material Disposal Act prior to the issuance of a certificate of approval to operate a waste disposal site or waste management system. Supporting documentation should be retained and appropriately filed to indicate compliance with legislation.

A monitoring process to test the reliability of discharger information being submitted to the Department should be developed and implemented for water pollutants.

The Department should consider increasing existing inspection coverage and developing a process to obtain certification from third party inspectors regarding the adherence of applicable permit terms and conditions.

Controls should be strengthened to ensure that annual inspections of PCB storage sites are performed, reports are properly completed and deficiencies followed up. The files should also contain evidence of overall review and approval of the inspections by senior management.

The Department should determine the extent and severity of non-compliance with legislation and implement procedures to bring dischargers into acceptable compliance over a reasonable period of time.

Action Taken

The Department indicated that a new *Environmental Protection Act* is currently being drafted to modernize and update the existing legislation and ensure that appropriate environmental management tools are in place to facilitate departmental objectives.

The Department does maintain an inventory of dischargers, discharges and discharge points but it is not complete. A data base has been developed for tracking municipal discharges. The data base, while not complete, does contain information on approximately 70 municipalities. The Department indicated that a lack of resources has prohibited further data collection.

The Department has a system in place to track all permits issued to dischargers and the related expiry dates. This system is reviewed regularly to determine which permits need to be renewed. The Department indicated that information regarding the dischargers is updated during the renewal process.

The Department, in consultation with the Insurance Division of the Treasury Board Secretariat, has established the insurance requirements necessary to be licensed as a pesticide operator in the Province. All operators are required to carry the necessary insurance before a licence is issued.

The Department indicated that the responsibility for the monitoring of waste disposal sites and waste management systems has been undertaken by Government Service Centres throughout the Province. The Government Service Centres are currently conducting a survey of waste disposal sites in the Province to determine the extent of problems with a view to developing solutions to the problems identified.

The Department indicated that, due to the lack of resources to develop and implement a monitoring process to test the reliability of discharger information being submitted to it for water pollutants, such a process is not in place.

The Department indicated that it has experienced a reduction in the number of inspectors during the past year. The Department has recently commenced a review to determine how it can more effectively use its existing group of inspectors to obtain greater inspection coverage.

Little progress has been made to ensure that annual inspections of PCB storage sites are performed.

The Department indicated that it establishes Compliance Agreements in situations where non-compliance with legislation is encountered. These Agreements establish the time frames during which companies have to comply with the applicable legislation. There are currently two such Agreements in place. The Department intends to set up these Agreements with other industries over the next year.

Department of Works, Services and Transportation

4.2.20 Leased Accommodations
(1994 Annual Report, Part 4.12)

Introduction

At the time of our review in 1994, the Works and Services Branch of the Department of Works, Services and Transportation leased, on behalf of the various Government departments, approximately 1,012,000 square feet of space located in 75 centres throughout the Province. Annual leasing and related operating costs at 31 March 1994 were reported in excess of $7 million. In the 1993-94 fiscal year there were approximately 250 leases.

The Branch is also responsible for managing a number of agreements for the lease of Government-owned properties. For the year ended 31 March 1994, the Division managed an estimated 80 such leases generating revenue of $425,490.

In 1994, we performed a review to assess compliance with the *Public Tender Act* and *Regulations*, established departmental policy and procedures, and generally accepted accounting principles for the disclosure of lease obligations.

We concluded that the Department did not fully comply with the *Public Tender Act* and *Regulations*. In addition, there were no documented policies and procedures to provide guidance to staff in the performance of their duties. Most informal policies and procedures in place were inadequate or not properly documented as having been completed. Our review also disclosed that significant lease commitments were not disclosed in the Consolidated Revenue Fund financial statements and that information on leases maintained by the Department in its Rental Index Information System was often inaccurate.

Update

In February 1997, we visited the Department to assess the action taken on the recommendations made in our 1994 report. Based upon a review of certain documentation and discussions with departmental officials, we concluded that the Department has taken action on most of our recommendations made in 1994. With respect to our recommendations not fully implemented, the status of the action taken is outlined as follows:

Policy and Procedures Manual

1994 Recommendation

The Division should continue to concentrate efforts on developing a manual to document and communicate policies and procedures relating to leasing activity.

Action Taken

The Department indicated that it has completed a policy and procedures manual since our review in 1994. It also indicated, however, that there were subsequent structural changes made to the Department which resulted in changes to staffing and responsibilities, and that the manual is being updated to reflect these changes.

Lease of Government-Owned Properties - Data Maintenance

1994 Recommendation

The Division should develop and implement an information system to record the available information on leases of Government-owned properties. This information should be current, available to appropriate officials at any point in time and reviewed by senior management on an ongoing basis.

Action Taken

The Department has indicated that a database is currently being developed to maintain the necessary information on these leases.

Rental Index Information System

1994 Recommendation

The Division should ensure the data entered into the Rental Index Information System is accurate.

Action Taken

The Department has indicated that it has implemented a new computer database to assist in its maintenance of these leases. However, our review of this database indicated that it is not updated on a timely basis and is incomplete. For example, not all tenants are included, many changes in the lease terms and rates have not been updated and the area of leased space is not included.

4.2.21 C. A. Pippy Park Commission (1995 Annual Report, Part 3.4)

Introduction

The C.A. Pippy Park Commission was incorporated in 1968 and operates under the authority of the *Pippy Park Commission Act*. Under this Act, the Commission has broad powers to implement a Master Plan and accordingly regulate land use within the Park.

In 1974, a group of volunteers founded the Public Golf Association, a not-for-profit organization, to develop a golf course. Since then, the Association has been operating a 9 hole golf course within the Park without a formal lease agreement. In 1989, Thomas Development (1989) Corporation was incorporated for the purpose of constructing, maintaining and operating an 18 hole golf course on land leased from the Province. The golf course was completed and officially opened on 26 June 1993. As a result, an 18 hole golf course and a 9 hole course are now both operated in C.A. Pippy Park on land controlled by the Commission.

During 1995, we reviewed the terms and conditions of the existing 18 hole golf course agreement. We also reviewed the terms and conditions relating to the operation of the existing 9 hole course.

Our review of the 18 hole golf course agreement indicated the following:

- the Commission did not have adequate controls in place to ensure adherence to the agreement;
- several clauses had not been adhered to; and
- several clauses were ambiguous.

Our review of the terms and conditions relating to the operation of the 9 hole course indicated that this course was operating without a formal lease.

Update

The Commission has recently entered into an agreement with Thomas Development (1989) Corporation with respect to the operations of both the 9 hole and the 18 hole golf courses. The Chief Operating Officer of the Commission has been assigned the responsibility of General Manager of Thomas Development (1989) Corporation, including ensuring adherence to the new agreement. In addition, the ambiguities that existed in the previous agreement have been corrected in the new agreement.

Department of Tourism, Culture and Recreation

4.2.22 Marble Mountain Development Corporation (1995 Annual Report, Part 3.1)

Introduction

The Marble Mountain Development Corporation is a "non-profit development corporation" incorporated under the laws of Newfoundland by the Province of Newfoundland. Its affairs are managed by a Board of Directors appointed by the Lieutenant-Governor in Council. The principal activity of the Corporation is managing and controlling the development of the Marble Mountain Development Area.

In 1995, we made recommendations to improve the Corporation's management practices, its compliance with legislation and other authorities and its Board governance.

Update

Since our review, the Corporation has undergone significant changes to its operations. On 17 September 1996, the Province of Newfoundland announced that the day to day operations of the Marble Mountain facilities would be transferred to the Marble Mountain Management Corporation

(MMMC) and as a result, all revenues earned from the assets owned by the Corporation will be recorded in the operations of the MMMC. Currently, both corporations share the one administrative function.

The Corporation has taken action on some of our recommendations made in 1995; however, many still need to be addressed as outlined below.

The *Public Tender Act*

Recommendation

The Corporation should document its tendering policies and procedures.

Action Taken

The Corporation has not yet documented its tendering policies and procedures; however, a meeting was held with a Government Purchasing Agency employee in October 1997 at which time tendering processes were reviewed.

Corporation's By-laws

Recommendation

The Corporation should comply with its By-laws.

Action Taken

The Corporation feels that its By-laws need to be updated given the recent changes to its organization and mandate. Notwithstanding this, the Corporation did not submit its 1997-98 budget to the Minister by 31 December 1996 nor did it submit a 1996-97 annual report to the Minister by 30 September 1997.

Board Governance

Recommendations

A self-evaluation process should be implemented to assess how the Board and its members are fulfilling their roles and responsibilities.

A Board member profile should be developed.

Action Taken

Neither of the above have been developed to date as the Corporation has not received guidance from Government on what it should expect of its Board members, how a self-evaluation process should be conducted or how Board profiles should be established.

Monitoring of the Master Plan

Recommendation

The Corporation should closely monitor key success factors such as skier visits and lift ticket yields to assess the impact that changes may have on the Master Plan, and analyse variances between projected figures and actual figures to determine causes.

Action Taken

Actual skier visits for the 1996-97 ski season were 57,856 while budget skier visits as per the *Master Plan Update* were 104,050. Master plan skier visit expectations are not considered attainable in the near future as proposed capital developments under the Master Plan have not been implemented as scheduled. Other than the *Master Plan Update* expectations, the Corporation has not projected more realistic skier visits for upcoming ski seasons.

The Corporation does compare skier visits each season to prior years' figures and daily tallies are kept of skier visits and skier origins. Also weekly reports are generated of skier visits; however, lift ticket yields are no longer reported.

Update on Prior Years' Report Items

Management Practices

1. Planning

Recommendation

The Corporation should develop a strategic planning document which is related to its vision statement and ensure operational plans are in place for each major aspect of the Corporation.

Action Taken

The Corporation considers its *Master Plan Update* as its long-term planning document as the Corporation is now only responsible for the development aspect of Marble Mountain. However, the *Master Plan Update* has not been updated since 1994 to reflect recent changes in organizational, operational and financial circumstances, and skier visit expectations.

2. Organization

Recommendation

The Corporation should document its policies and procedures for all significant administrative and operational systems, prepare position descriptions for all staff and prepare and approve terms of reference for all Board committees.

Action Taken

Some policies and procedures regarding purchasing, inventory and human resources have been documented in the Corporation's *Operations Manual*; however, this manual still does not include all significant administrative and operational systems.

Position descriptions do not exist for non-management staff; however, it is anticipated that these will be documented before the next ski season begins.

The Corporation now has only one committee, the Development Committee, which is to have its terms of reference presented at the next Board meeting for approval.

3. Human Resources

Recommendation

The Corporation should ensure all staff are evaluated on a regular basis and overtime is approved by management prior to the work being performed.

Action Taken

A policy requiring annual evaluations is to be implemented for the 1997-98 fiscal year.

All overtime is approved for payment by management on the weekly time sheets. The Corporation feels the approval of overtime prior to the work being performed is not practical.

4. Budgeting

Recommendation

The Corporation should document its budget process and ensure all budgets are reviewed and approved by the Board and provided to the Minister on a more timely basis.

Action Taken

The budget process has not yet been documented in the form of policies and procedures. The Corporation's 1997-98 budget was submitted to the Board for approval on 16 September 1997 and has not been submitted to the Minister to date.

5. Reporting

Recommendation

The Corporation should document its current reporting process, submit a comparison of actual to budget revenues and expenditures and written variance explanations to the Board, and present an annual report to the Minister.

Action Taken

The Corporation has not yet documented its reporting process.

The Corporation does not submit actual to budget comparisons or written variance explanations to the Board as the number and amount of transactions are considered small. Also, we note that the Corporation's financial reporting system does not report budget figures; therefore, manual comparisons are necessary.

An annual report was not submitted for the 1996-97 fiscal year.

Conflict of Interest Guidelines

Recommendation

The Corporation should develop conflict of interest guidelines.

Action Taken

The Corporation intends to follow the guidelines as established under the *Conflict of Interest Act*; however, at the time of our update the Corporation did not have a copy of the Act on hand.

4.2.23 Newfoundland and Labrador Arts Council (1995 Annual Report, Part 3.2)

Introduction

The Newfoundland and Labrador Arts Council was established in 1980 under the *Arts Council Act*. Its mandate is to foster and promote the study, enjoyment and production of works in the arts of the Province. The Council reports to the Minister of Tourism, Culture and Recreation and for 1997 it had an annual operating budget of approximately $1.4 million. The Council consists of 12 members appointed by the Lieutenant-Governor in Council.

In carrying out its mandate, the Council provides funding to eligible individuals and organizations through the administration of a sustaining grant program and a project grant program. Sustaining grants provide professional arts organizations with assistance toward their administrative costs. Project grants support costs relating to production, operations, travel and study for a specific project to be undertaken by an artist, arts group or organization. The level of funding provided by these two grant programs has remained relatively constant over the past three years and has amounted to approximately $1.1 million.

In 1995, we concluded that many aspects of the Council's administration of the grant programs were not adequate. We made recommendations at that time to assist the Council in administering its grants programs.

Update

The Council has taken some action on our recommendations made in 1995. Recommendations relating to areas of program evaluation, and application forms and guidelines have been addressed. With respect to our other recommendations, the status of the action taken is outlined as follows:

Program Objectives

1995 Recommendation

The Council should ensure that performance indicators are established for all grant programs.

Action Taken

The Council has not developed specific performance indicators for the grant programs. The Council indicated that staff resources do not allow for such an undertaking and that there are no policies from the Department of Tourism, Culture and Recreation that address types of performance indicators that can be used for it's grant programs. The Council also indicated that the grant programs administered have resulted in significant enhancements of the arts community over the past 15 years.

Eligibility and Selection Criteria

1995 Recommendation

The Council should ensure that all eligibility criteria are clearly defined.

Action Taken

In 1997 the Council reviewed the sustaining grants program and addressed the issue of clarifying eligibility criteria for applicants. One of the proposed changes to the eligibility criteria now states that the applicant must "*...demonstrate a level of earned income consistent with peers in their artistic discipline and relevant to their artistic activities.*" However, it is still difficult to assess an application against this criteria in a consistent manner as eligibility criteria are still not clearly defined.

Application Forms and Guidelines

1995 Recommendation

The Council should ensure that application guidelines and forms clearly state all required applicant information.

Action Taken

During 1997 the Council produced an "Advice" booklet that is provided to the applicant which covers general areas of concern in the application process and grant funding. Some changes have also been made in an attempt to increase the efficiency of the granting process. In addition, a checklist has been established and Council staff must complete it for each file to ensure the appropriate information has been obtained. However, the application form still does not request age and residency information from the applicant.

Review and Approval of Applications

1995 Recommendations

The Council should ensure applicants receiving grants meet established eligibility and selection criteria.

The Council should ensure that all files contain sufficient documentation to support funding decisions and to address any concerns identified by the independent evaluators.

Action Taken

The Council reviewed the eligibility and selection criteria for grant programs and has attempted to clarify the criteria used to assess applicants. A Program Officer position has been established, resulting from a Federal employment program, for a term of one year, and this has allowed for more complete applicant information to be obtained.

The Council indicated that the expertise of committee members must be relied on in the evaluating and recommending of applicants and that these members arrive at a decision based on discussion and comparison of applicants. The Council indicated that it would not be appropriate to request the extra time required for detailed written assessments from the volunteer Council.

Monitoring of Grants

1995 Recommendation

The Council should ensure that monitoring of approved projects is performed on a timely basis and that grant recipients comply with all terms and conditions attached to the grant.

Action Taken

The Council indicated that it has not adopted a formal monitoring process to date since its staff resources do not allow for such a frequent review. The Council indicated that it would not be feasible to monitor all project grant recipients and that the onus is on the grant applicant to meet certain requirements prior to receiving the grant. The Council also indicated that it is well informed of an applicant's progress toward a project's completion.

Program Evaluation

1995 Recommendation

The Council should ensure that grant programs are evaluated on a regular basis to ensure that program objectives are being achieved.

Action Taken

During 1997 the Council reviewed the project and sustaining grant programs and the resulting changes are expected to be put in place by February 1998. The Council indicated that it will attempt to evaluate grant programs on a regular basis to ensure that program objectives are being achieved.

Reporting

1995 Recommendation

The Council should prepare and submit to the House of Assembly, through the Minister of Tourism, Culture and Recreation, annual reports on its activities, including a review of the effectiveness of the grant programs.

Action Taken

Annual reporting by the Council to the Minister of Tourism, Culture and Recreation has not occurred. The Council has indicated that it recognizes the benefits of annual reporting and that it will endeavour to prepare annual reports.

4.2.24 The John Cabot (1997) 500th Anniversary Corporation (1995 Annual Report, Part 3.3)

Introduction

The John Cabot (1997) 500th Anniversary Corporation was incorporated under the *Corporations Act* on 22 May 1992. It was established for planning and organizing the celebrations to recognize the 500th anniversary of John Cabot's voyage to Newfoundland. The Board of Directors of the Corporation was appointed by the Lieutenant-Governor in Council.

It was indicated in our 1995 Report to the House of Assembly that we attempted to conduct an audit of the Corporation in April 1995 but were informed by the Board that our review would be limited to the financial records. As a result of this restriction, we were not able to commence our audit at that time.

Update

In October 1995, the Corporation was made a Crown corporation and on 3 November 1995 the Minister of Tourism, Culture and Recreation announced that the Corporation would be immediately dissolved. Subsequent to this announcement, the Board of Directors was dissolved and the majority of the Corporation's staff were laid off. In January 1996, we informed the Deputy Minister of Tourism, Culture and Recreation that we would be commencing the audit of the Corporation. In March 1997, we submitted our report on The John Cabot (1997) 500th Anniversary Corporation to the House of Assembly.

Department of Human Resources and Employment

4.2.25 Integrated Delivery System (1995 Annual Report, Part 3.6)

Introduction

In 1989, Government approved the development of a computerized information system for the Department of Social Services to support the information needs of the Department. In 1995, we reviewed the status of the system as well as the Department's procedures for planning, organizing, controlling and managing the development of the system. Our review indicated that:

- The Department had, as required by Government policy, established committees and working groups to oversee development of the system and included representatives from all user groups.

- The Steering Committee did not have long-term plans prepared on a regular basis so that the status and cost of the system could be adequately monitored. For example, the scope and timing of the system development changed between the initial proposition in 1989 to the final design completed in 1994, adding cost and development time that were not considered in a comprehensive long-term plan.

- When the system received Treasury Board approval in 1989, it was estimated to cost approximately $3.7 million (for software development only) and be completed in four years. Subsequently, estimated costs, projected to 1999, increased to $32.7 million in December 1992 and to $47.9 million in January 1995 with an estimated completion date in 1997. The $32.7 million and the $47.9 million include the costs of hardware, software development, staff training and operation.

- Although the development of the system was approved in 1989, the project still remains substantially incomplete after spending $10.3 million to the fiscal year ended 31 March 1995.

- Of the $10.3 million spent on the project, only $2.5 million has been identified as providing some future benefit. This $2.5 million was spent on microcomputer hardware, software and training. The remaining $7.8 million was spent in areas that, at the present time, are difficult to evaluate as to whether there will be any benefit in future fiscal years.

- The computerized information system was intended to address weaknesses and issues identified by a firm of management consultants in 1988. However, many of those weaknesses and issues are still unresolved.

Update

In 1995, the Integrated Delivery System project was terminated. The Department has indicated, however, that some information from the project has been used in the development of other systems, including the Child Registration System and the Financial Assistance Officers Statistics System. As the Department has been involved in significant structural changes, no further major systems development work, including the replacement of the social assistance system, has been conducted. The Department also indicated that it is involved in a number of initiatives, through partnerships with other departments and organizations, to help improve the delivery of services to its clients.

Department of Fisheries and Aquaculture

4.2.26 Newco Corporations - Middle Distance Fishing Vessels (1995 Annual Report, Part 3.9)

Introduction

The Department of Fisheries began a program in the late 1970's to evaluate the use of fixed-gear technology on mid-size vessels in the Newfoundland groundfish fishery. During 1987, the program was expanded with the construction, by Marystown Shipyard Limited, of two middle distance fishing vessels, the *Funk Island Banker* and *Belle Isle Banker*, that were specifically designed for Newfoundland conditions. As a result of a financing arrangement between the Province and a leasing company, the two vessels were purchased by Roylease Limited and leased back to the Province through two companies, Newco I and Newco II, which were created under the *Corporations Act*.

During 1988 and 1989 the program was further expanded with the construction, by Marystown Shipyard Limited, of two additional middle distance fishing vessels, the *Makkovik Banker* and *Nain Banker*. This time, the two vessels were purchased by Pitney Bowes Limited and leased back to the Province through two companies, Newco III and Newco IV, which were created under the *Corporations Act*.

The Province, through senior Government officials, held an 85% ownership interest in each of the Newco corporations.

In 1995, we performed a review of the Newco corporations. In our 1995 Annual Report to the House of Assembly we concluded, among other things, that:

- As at 31 March 1994, the Newco corporations owed the Province $15.4 million comprised of $12.0 million in advances and $3.4 million in related interest charges. In addition, the Province had guaranteed lease payments totalling $13.9 million on behalf of these corporations. This combined total of $29.3 million was estimated to have little likelihood of recovery.
- Three of the vessels were sold during April and July 1995 at a net combined loss of $7.2 million. The remaining vessel, the *Nain Banker*, was leased to the Fisheries and Marine Institute of Memorial University of Newfoundland under a one-year agreement which commenced in January 1995. Under the agreement, the operator was responsible for operating, maintenance and insurance costs of the vessel. Newco IV remained responsible for semi-annual lease payments of $253,879.

Update

During 1997 we completed a follow up review of the Newco corporations. The results of our review are outlined in Part 3.25 of this report.

Treasury Board Secretariat

4.2.27 Consultant Guidelines (1995 Annual Report, Part 3.15)

Introduction

The Province hires consultants such as engineers, architects and auditors on a regular basis. Order-in-Council 1233-'85 approved the development and issuance of financial, selection and contractual guidelines governing the hiring of external consultants. *Guidelines Covering the Hiring of External Consultants* were issued by Treasury Board Secretariat in 1985.

The Guidelines are to be followed in all circumstances where a government department directly engages the services of an external consultant. As defined in the Guidelines, an external consultant is deemed to be a private individual, group of individuals, company or institution with a high level of attainment in a professional, scientific, technical or managerial field which is engaged directly by a government department to perform specific work of an advisory nature not covered under the *Public Tender Act*. Items that are considered to be professional services but are not subject to the Guidelines include policing services provided by the Royal Canadian Mounted Police and legal services.

Treasury Board Secretariat is responsible for providing interpretation and advice to departments on specific contracts, and to review periodically, or when requested by a department, the Guidelines to ensure that they continue to meet the operational and financial objectives of Government.

A review of the hiring of consultants was completed in 1995. Fifty-seven contracts, totalling $7.8 million, were selected for review from nine government departments. The purpose of our review was to determine departmental compliance with the requirements of the Guidelines and to assess Treasury Board Secretariat's responsibilities regarding the Guidelines. Four Crown agencies were also reviewed to assess the policies and procedures in place for the hiring of consultants.

We concluded that Government was not fully complying with its *Guidelines Covering the Hiring of External Consultants* as various instances of non-compliance by government departments with the financial, selection and contractual provisions of the Guidelines were noted. Payments to consultants were not monitored by Government and as a result, the extent and allocation of payments to consultants could not be determined. In addition, departments were not informed of the policies and procedures that were being followed by the agencies reporting to them and thus, could not determine if these policies and procedures were appropriate.

Update

Our review during 1995 was the first phase of our work in this area and as such, the review of the hiring of consultants is ongoing as a continuing project. Consequently, comments on the action taken by respective departments, Crown agencies and Treasury Board Secretariat on the 1995 recommendations will be deferred pending completion of our review.

Department of Industry, Trade and Technology

4.2.28 Economic Recovery Commission (1995 Annual Report, Part 3.16)

During 1995, we carried out a review of the Economic Recovery Commission to assess the policy and procedures of the Commission with respect to the hiring of consultants. We concluded that the Commission had not developed its own policy nor documented its procedures with respect to the hiring of consultants. In addition, we concluded that proposals were often not requested and selection criteria were not documented.

Update

Effective 14 March 1996, the assets, liabilities and operations of the Economic Recovery Commission were transferred to a newly created Department of Development and Rural Renewal. As a result, any further monitoring and review of this area will be included as part of our audits of government departments.

4.2.29 The Privatization of Newfoundland and Labrador Computer Services Limited (1995 Annual Report, Part 3.17)

Introduction

On 13 October 1994, Government announced the completion of negotiations for the sale of all the shares of Newfoundland and Labrador Computer Services Limited to NewTel Enterprises Limited and its consortium partners Bell SYGMA Inc. and Andersen Consulting, representing 80%, 10% and 10% ownership respectively. NewTel and its consortium partners incorporated a new company called NewTel Information Solutions (NIS).

As a result of the privatization, Government entered into several legal agreements whereby the Province would receive the following:

- $9 million for the shares of Newfoundland and Labrador Computer Services Limited with the building remaining the property of Government;
- $35 million in new information technology (IT) business to be brought to the Province over seven years by the partners purchasing Newfoundland and Labrador Computer Services Limited ($15 million through NewTel Enterprises Limited, $12 million through Andersen Consulting, $5 million through Sygma Inc., and $3 million in research and development to be contracted with NIS by Andersen Consulting);

- the creation of 85 new jobs (20 by the third year, an additional 40 by the end of the fifth year and another 25 by the end of the agreement) and an additional 27 person years of employment over the first three years of the agreement;
- from the new company, NIS, a commitment to subcontract $9 million in Government work and an additional $12.2 million in non-Government work over the term of the agreements, to 31 March 2002; and
- $587,000 annual building lease rental upon Government's completion of an approximate $2.1 million building expansion project.

In addition, the Share Purchase Agreement entitles Government to have a representative on the Board of Directors of NIS during the term of the Service Level Agreement.

For their part, Government and Memorial University of Newfoundland have contracted with NIS to purchase a minimum of $17.5 million annually in IT services.

Additionally, the company remains owned, operated and managed as a Newfoundland company, with benefits to be derived from alliances with Andersen and Sygma to strengthen the local IT industry. All the assets of NewTel Communications Limited's IT business including about 80 staff were transferred to NIS. NewTel Enterprises Limited is providing an ongoing supplier development program which is available to local IT companies. The investment in technology upgrading and human resources allows access to new national and international markets.

The most significant aspect of the privatization of Newfoundland and Labrador Computer Services Limited is to ensure that Government receives the future benefits which it has negotiated and which are reflected in the agreements with NewTel.

Update

During 1997 we completed a follow-up review of the privatization of Newfoundland and Labrador Computer Services Limited. The results of our review are outlined in Part 3.4 of this report.

4.3 Comments on Agencies of the Crown and Other Entities

4.3.1 Public Sector Restraint Act, 1992 (1994 Annual Report, Part 5.1)

Introduction

In 1994, we conducted an examination of ten Crown agencies and Treasury Board Secretariat to assess compliance with the *Public Sector Restraint Act, 1992*. That review indicated:

- of the ten agencies reviewed, six were found to have one or more instances of non-compliance with the Act;
- Treasury Board Secretariat did not comply with sections 5(6) and (7) of the Act which required that it recalculate the pay scales and monetary benefits affected by the Act and publish these in *The Newfoundland Gazette*;
- there was no monitoring performed by Treasury Board Secretariat to evaluate or ensure compliance with the Act; and
- in all of the agencies reviewed, instances were noted whereby compensation practices were inconsistent with those of Government.

Update

As reported in the update contained in our 1996 Report, overall, the action taken by the Treasury Board Secretariat in response to our recommendations has not been satisfactory. With respect to recalculating the pay scales affected by the Act, the Secretariat has advised that there was no need to recalculate the pay scales, as those in effect at the introduction of the Act had remained unchanged.

Action taken in relation to specific recommendations follows.

Inconsistent Compensation Practices

Two recommendations were made in the area of inconsistent compensation practices. Our first recommendation was that Government should address the inconsistencies in personnel management policies and procedures between Government and its various agencies. This would be in keeping with Minute of Council 94-0520 which directed Treasury Board to advise all boards, agencies and commissions that compliance in all respects with the compensation standards which have been established for Government departments, is mandatory. Our second recommendation was that the boards, agencies and commissions to which the compensation standards of Government are to apply should be specifically named by order of the Lieutenant-Governor in Council.

In response to our recommendations, the Secretariat advised that information would be collected from all agencies to address the degree of inconsistency and a report would be submitted to Cabinet. This has not been done.

In August 1996 the Secretariat did release a new *Compensation Policies and Procedures Manual* to all Deputy Ministers and Heads of boards, agencies and commissions. While the Manual provides direction in specific areas, the Secretariat has not indicated to the Heads of boards, agencies and commissions that compliance with the compensation standards established for Government departments is mandatory.

As a result of the Secretariat's failure to monitor and enforce the compensation policy, we continue to identify instances where boards, agencies and commissions provide compensation to employees that is not consistent with the standards established for Government departments. Additional information relating to instances identified in our current Report and prior years' Reports is included in Part 3.6 - Compensation Practices.

The Secretariat has recently advised that as part of the Public Service Reform Initiative, a task force has been established which will assess the suitability of the various authority and accountability structures in place for agencies and boards.

4.3.2 Busing Guidelines
(1994 Annual Report, Part 5.2)

Introduction

In 1994, we reported several findings to the Department regarding our review of seven school boards' pupil transportation systems. Our review of each school board was designed to ensure pupil transportation policies and procedures were clearly defined and communicated, the school boards complied with the *Schools Act (Transportation of Pupils) Regulations, 1979* and the *Guidelines for Special Transportation*, and the school boards exercised adequate control over the acquisition, monitoring and reporting of pupil transportation services. In our 1996 Annual Report, we updated our 1994 Annual Report findings and recommendations on the pupil transportation system. The Department had taken global actions with regards to the provincial pupil transportation system. The Department also addressed specific findings made in our 1994 report.

Update

Since our 1996 update, the 27 denominational school boards have been dissolved and 10 new school district boards established. These school boards will be held accountable for ensuring efficiencies within their pupil transportation systems while the Department will continue to monitor expenditures through their review and analysis of annual financial statements. Further monitoring and review of this area will be included as part of our cyclical audits of department programs and agencies.

4.3.3 Labrador East Integrated School Board
(1994 Annual Report, Part 5.3)

Introduction

In 1994 we conducted a review of the Labrador East Integrated School Board. This review made recommendations to improve the adequacy of the Board's management practices and controls over capital assets, pupil transportation, purchasing and human resources. In 1996, we updated our review of the Board's actions in response to our recommendations. This report concluded that many of our 1994 recommendations were not acted upon.

Update

Effective 1 January 1997, the new *Schools Act, 1996* dissolved the existing 27 school boards and established 10 new district school boards. The Labrador East Integrated School Board became part of the School District #1 - Labrador and, as a result, any further monitoring and review of this area will be included as part of our cyclical audits of Crown agencies and boards.

4.3.4 Roman Catholic School Board Humber-St. Barbe
(1994 Annual Report, Part 5.4)

Introduction

In 1994 we conducted a review of the Roman Catholic School Board Humber-St. Barbe. This review made recommendations to improve the adequacy of the Board's management practices and controls over capital assets, pupil transportation, purchasing and human resources. In 1996, we updated our review of the Board's actions in response to our recommendations. This report concluded that many of our 1994 recommendations were acted upon; however, some recommendations in the areas of management practices, capital assets and human resources were not.

Update

Effective 1 January 1997, the new *Schools Act, 1996* dissolved the existing 27 school boards and established 10 new district school boards. The Roman Catholic School Board Humber-St. Barbe became part of the School District #3 - Corner Brook\Deer Lake\St. Barbe and, as a result, any further monitoring and review of this area will be included as part of our cyclical audits of Crown agencies and boards.

4.3.5 Notre Dame Integrated School Board
(1994 Annual Report, Part 5.5)

Introduction

In 1994 we conducted a review of the Notre Dame Integrated School Board. This review made recommendations to improve the adequacy of the Board's management practices and controls over capital assets, pupil transportation, purchasing and human resources. In 1996, we updated our review of the Board's actions in response to our recommendations. This report concluded that many of our 1994 recommendations were acted upon; however, some recommendations in the areas of management practices, capital assets and human resources were not.

Update

Effective 1 January 1997, the new *Schools Act, 1996* dissolved the existing 27 school boards and established 10 new district school boards. The Notre Dame Integrated School Board became part of the School District #6 - Lewisporte\Gander and, as a result, any further monitoring and review of this area will be included as part of our cyclical audits of Crown agencies and boards.

4.3.6 Gander and District Hospital Board

(1994 Annual Report, Part 5.6)

Introduction

In 1994, we conducted a review of the Gander and District Hospital Board. As a result of that review, we reported on the adequacy of the Board's management practices and the controls over capital assets, inventory, purchasing and human resources. This report made reference to the Board's deteriorating financial position which reflected a bank indebtedness of $1.3 million and a working capital deficiency of $208,000. In 1996, we updated our 1994 Annual Report item on the Gander and District Hospital Board to reflect any actions taken or not taken by the Board. At the time of our 1996 update, the Board had a bank indebtedness of $1.2 million and a working capital deficiency of $1.3 million. Since our original review, the operations of the Gander and District Hospital Board ceased and the Board became part of the newly established Central East Health Care Institutions Board.

Update

A subsequent review of the 31 March 1997 audited financial statements for the Central East Health Care Institutions Board disclosed that the financial position of the Board has not improved since the year ended 31 March 1996. As at 31 March 1997, the Board had a negative working capital, excluding accrued vacation pay, of approximately $1.5 million with a bank indebtedness of $1.8 million. Board staff indicated that the bank indebtedness is usually higher at year end due to provincial grant funding timing differences. As at 31 March 1997 the Provincial Government owed the Board $873,000. The Board's indebtedness has, on average, remained at approximately $1,000,000. Given the Board's annual financial budget constraints the Board does not expect this indebtedness to reduce anytime in the near future. The Board did show an improvement in its net deficit from the previous year; however, it still reported an excess of expenditures over revenue of $1.5 million for the year ended 31 March 1997. Of this total, only $107,230 related to an operating deficiency while the remainder related to non-budgetary items such as depreciation, severance accruals and vacation pay accruals.

Due to the change in the size and operations of the Board since our original review any further monitoring and review of this area will be included as part of our cyclical audit of Crown agencies and boards.

4.3.7 Corner Brook Inter Faith Home for Senior Citizens

(1994 Annual Report, Part 5.7)

Introduction

In 1994 we conducted a review of the Corner Brook Inter Faith Home for Senior Citizens. This review made recommendations to improve the adequacy of the Board's management practices and controls over capital assets, inventory and purchasing. In 1996, we updated our review of the Board's actions in response to our recommendations. This report concluded that many of our 1994 recommendations were acted upon; however, some recommendations in the areas of capital assets and inventory were not.

Update

Effective 1 January 1996, the Corner Brook Inter Faith Home for Senior Citizens became part of the Western Health Care Corporation and, as a result, any further monitoring and review of this area will be included as part of our cyclical audits of Crown agencies and boards.

5.1 Operations of the Office of the Auditor General

Introduction

The Auditor General is the independent legislative auditor of Government, its departments and agencies of the Crown and Crown controlled corporations. The Auditor General reports to the House of Assembly on significant matters which result from the examinations of these entities.

The Auditor General is also the independent auditor of the Province's financial statements and the financial statements of many agencies of the Crown and, as such, expresses an opinion on these financial statements.

Section 12 of the *Auditor General Act* requires the Auditor General to report on:

- the work of the office;
- whether, in carrying out the work of the office, the Auditor General received all the information including reports and explanations;
- the results of the examination of the Province's financial statements;
- audits, examinations and inquiries performed under the Act;
- the results of the examination of the accounts of the Province; and
- anything the Auditor General considers significant, including weaknesses in control over:
  - collections of public money;
  - disbursements of public money;
  - whether accounts have been faithfully and properly kept;
  - whether assets acquired, administered or otherwise held are adequately safeguarded and accounted for;
  - whether accounting systems and management control systems that relate to revenue, disbursements, the safeguarding or use of assets or the determination of liabilities were in existence, were adequate and were complied with; and
  - any factors or circumstances relating to an expenditure of public money which in the opinion of the Auditor General should be brought to the attention of the House of Assembly.

The full text of the Auditor General Act is presented as Appendix IV to this Report.

Mission and Values

The mission and values of the Office of the Auditor General are as follows:

Mission Statement

The Office of the Auditor General serves the House of Assembly by providing independent examinations of government and its entities.

As legislative auditors, we audit financial statements and other accountability documents, evaluate management practices and control systems, and determine compliance with legislative and other authorities.

Our purpose is to promote accountability and encourage positive change in the stewardship, management and use of public resources.

Values

We carry out our mission within the context of a set of values that define our commitments and beliefs. These are our values.

We believe in independence for our Office, integrity in our conduct and quality in our work. Therefore, we will:

- *maintain our independence and avoid the perception of bias:*
- *strive for excellence in our work and seek continuous improvement in our use of technology, methodology and training;*
- *treat all external parties with courtesy and respect, and*
- *conduct ourselves according to the highest professional standards.*

We believe everyone should be treated with fairness and respect. Therefore, in our Office, all employees:

- *are recognized and valued for contributions;*
- *communicate openly and work together as a team;*
- *receive necessary opportunities for professional and personal growth; and*
- *are accountable for quality performance and encouraged to improve processes.*

Scope of Audit Activity

Financial Statements of the Province

Section 11 of the *Auditor General Act* requires that the Auditor General examine the financial statements of the Province on an annual basis. This year we have examined the consolidated summary financial statements prepared by Government which include in the reporting entity certain organizations that are accountable for the administration of their financial affairs and resources either to a Minister of Government or directly to the Legislature, and that are owned or controlled by Government. We have also examined the statements of the Consolidated Revenue Fund of the Province which have been prepared by Government. Comments on these financial statements and comments on the reporting entity are included in a separate report entitled *Report of the Auditor General to the House of Assembly on the Audit of the Financial Statements of the Province for the Year Ended 31 March 1997.*

Accounts of Central Government and Departments

Section 10 of the *Auditor General Act* provides that the Auditor General is the auditor of the financial statements and accounts of the Province and shall make those examinations considered necessary to report as required under the Act. At 31 March 1997 there were 18 Government departments, the Consolidated Fund Services and the Legislature, involved in the administration of the revenue and expenditure program.

The size and complexity of Government operations prevent the audit of all programs and systems on an annual basis. Therefore, we audit a selection of programs and systems each year designed to cover all significant operations on a cyclical basis.

For information purposes we have included as Appendix I of this Report, a list of departmental audits performed by our Office.

Agencies of the Crown

The Auditor General is the auditor of the financial statements of certain agencies of the Crown. These audits are listed in Appendix II of this Report. As part of these audits we express an opinion on the financial statements and, when appropriate, issue a management letter. This letter highlights certain matters which come to our attention as a result of our audit and include any recommendations we have for improvements. These audits are performed in accordance with the provisions of the various legislation which creates these entities.

Section 14 of the *Auditor General Act* also provides that where an auditor has not been appointed to audit an agency of the Crown or a Crown controlled corporation, the Auditor General shall be the auditor.

Each year we also perform additional examinations of certain agencies of the Crown including those whose attest audits are performed by private sector auditors. These additional examinations are designed to review compliance with various legislation and to ensure that the entities have adequate systems of management control in place. The results of these examinations are disclosed in this Report. A list of the additional examinations of agencies of the Crown completed during the year is included in Appendix II of this Report.

Agencies of the Crown and Other Entities Whose Financial Statement Audits are Performed by Private Sector Auditors

For information purposes, we have included as Appendix III of this Report a list of agencies of the Crown and other entities whose financial statements are audited by private sector auditors.

Section 14 of the *Auditor General Act* requires that on conclusion of the audit of any of these entities the private sector auditor must deliver to this Office a copy of the auditor's report, any recommendations to management and a copy of the audited financial statements of the entity. The auditor must also make available any working papers, reports, schedules and other documents in respect of the audit and also provide an explanation of work performed, tests and examinations made and the results obtained. In addition, Section 14 of the Act provides that the Auditor General may conduct an additional examination of the records and operations of the agency of the Crown or other entity.

Major Achievements

The Office has developed a strategic plan detailing our lines of business based on the scope of audit activity outlined above and identifying critical success indicators against which to measure our performance. The plan provides the major thrusts that set the direction for the Office. Our major achievements during the year include:

- We completed all financial statement audits in accordance with professional standards and internal Office policies within the established deadlines and within a 10% variance of budget for time and cost.

- We implemented a risk-based system of selecting which agencies of the Crown and which Government programs will be subject to an additional review. In the spring of 1997 we developed a computerized risk based audit management system which will be used in our 1997-98 fiscal year.

- We prepared an accountability report on our Office.

- We continued our process of monitoring past recommendations of the Office, the results of which are included in Chapter 4 of this Report. We have established a system to measure the extent to which government implements our recommendations.

- We adopted a framework to monitor the financial position, financial statements and management letters of agencies of the Crown. We are now using this framework to prepare an annual report to the House of Assembly on our monitoring of these agencies of the Crown.

- We have subjected all of our legislative audits to quality control criteria and a formal challenge review process.

- Our reports on our legislative audits in 1995 and 1996 were tabled in the House of Assembly in December of each year.

- Our reports on the financial statements of the Province, for the 1995 and 1996 fiscal years, were tabled in the House of Assembly in December of each year.

- We completed a review of the administrative and financial operations of the Town of Pouch Cove at the request of the Legislature's Public Accounts Committee. Our report on this review was tabled in the House of Assembly on 4 September 1997.

- We completed a review of the financial affairs of the Health Care Corporation of St. John's at the request of the Legislature's Public Accounts Committee. Our Report on this review was tabled in the House of Assembly on 4 September 1997.

- We completed a review of the financial affairs of the Newfoundland Cancer Treatment and Research Foundation at the request of the Legislature's Public Accounts Committee. Our report on this review was tabled in the House of Assembly on 2 December 1997.

Professional Development and Training

A program of ongoing training and professional development of staff is essential to ensure that staff keep current with new auditing techniques used in the profession. This program consists of on-the-job training and in-house courses and seminars.

We continue to encourage our staff to pursue and complete programs of study which enable them to obtain professional accounting designations. We are pleased to note that during the year the following members of our staff obtained their professional accounting designation:

- Lawrence Blanchard, C.A.;

- Keith Butt, C.A.;

- Kelly Newell, C.A.;

- Scott Walters, C.A.; and

- Denise Tubrett, C.G.A.

We wish continued success to those of our staff now studying towards a professional accounting designation.

Staff of the Office of the Auditor General

As at 30 September 1997 the Auditor General and the staff of the Office include the following:

- Anne Allen
- Don Allen
- Kevin Antle
- Keith Butt
- John Casey
- Rosemarie Crann
- Gertrude Critch
- Tony Dingwell
- Bill Drover
- Mary Lynn Granville

- Joanna Harris
- Martin Hattenhauer
- Claude Janes
- Brenda Kavanagh
- Marlene Lambe
- Wayne Loveys
- James Mallard
- Elizabeth Marshall
- Julia Mullaley
- Dan Murphy
- Bill Noftall
- John Noseworthy
- Steve Pearce
- David Pike
- David Ralph
- Tony Roestenberg
- Sandra Russell
- Keith Smith
- Scott Walters
- David White
- Tony Wiseman

Financial Activities of the Office of the Auditor General

The *Auditor General Act* requires an audit of our Office. The auditor appointed under Section 32 reports to the Commission of Internal Economy of the House of Assembly. The following are the auditor's report and financial statements for our Office:

AUDITOR'S REPORT

To the Commission of Internal Economy
House of Assembly
Province of Newfoundland

I have audited the schedule of assets and liabilities of the Office of the Auditor General, Province of Newfoundland as at 31 March 1997 and the statement of expenditure and related revenue and statement of gross expenditure and unexpended balances for the year then ended. This financial information is the responsibility of the Office's management. My responsibility is to express an opinion on this financial information based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial information. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial information.

In my opinion, this financial information presents fairly, in all material respects, the financial position of the Office as at 31 March 1997, and the results of its operations for the year then ended, in accordance with the accounting principles disclosed in Note 1 to the financial information.

BERNARD P. HOGAN
CHARTERED ACCOUNTANT

St. John's, Newfoundland
7 October 1997

OFFICE OF THE AUDITOR GENERAL
PROVINCE OF NEWFOUNDLAND
SCHEDULE OF ASSETS AND LIABILITIES
31 MARCH 1997

ASSETS

Current	1997	1996
Audit fees billed and in progress	**$40,797**	$25,610
Travel impressts	**1,909**	909
Accountable advance	**200**	200
	$42,906	$26,719

LIABILITIES

Current		
Accrued leave	**$180,198**	$177,066
Vouchers payable	**0**	40
Accrued payroll	**65,543**	57,217
Accrued severance pay	**312,665**	336,447
	$ 558,406	$570,770

Signed on behalf of the Office: ______________________

Auditor General of Newfoundland

See accompanying notes to financial information

OFFICE OF THE AUDITOR GENERAL
PROVINCE OF NEWFOUNDLAND
STATEMENT OF EXPENDITURE AND RELATED REVENUE
FOR THE YEAR ENDED 31 MARCH 1997

		Estimates	
	Actual	Amended	Original
EXECUTIVE SUPPORT			
Salaries	**$ 31,747**	$ 31,772	$ 31,022
Salaries (statutory)	**93,678**	93,778	93,778
Employee benefits	**844**	900	2,700
Transportation and communications	**9,497**	9,600	7,000
Professional services	**21,092**	21,100	25,000
Purchased services	**380**	400	700
	157,238	157,550	160,200
ADMINISTRATIVE SUPPORT			
Salaries	**208,252**	208,400	200,600
Employee benefits	**2,053**	3,500	6,400
Transportation and communications	**29,669**	30,100	26,500
Supplies	**16,883**	17,100	20,100
Purchased services	**154,572**	158,200	160,400
Property, furnishings and equipment	**-**	500	4,000
Grants and subsidies	**5,000**	5,000	5,000
	416,429	422,800	423,000
AUDIT OPERATIONS			
Salaries	**1,509,980**	1,510,950	1,547,400
Employee benefits	**6,270**	6,700	16,700
Transportation and communications	**44,873**	60,500	71,500
Professional services	**46,238**	47,600	15,000
Information technology	**65,716**	66,800	39,100
	1,673,077	1,692,550	1,689,700
Revenue - provincial	**(140,905)**	(185,900)	(185,900)
	1,532,172	1,506,650	1,503,800
Net Expenditure	**$2,105,839**	$2,087,000	$2,087,000

See accompanying notes to financial information

OFFICE OF THE AUDITOR GENERAL
PROVINCE OF NEWFOUNDLAND
STATEMENT OF GROSS EXPENDITURE AND UNEXPENDED BALANCES
FOR THE YEAR ENDED 31 MARCH 1997

Original estimates (net)	$2,087,000
Add back revenue estimates net of transfers and statutory payments	92,122
Original estimates of expenditure	2,179,122
Supplementary supply	-
Total appropriation	2,179,122
Total net expenditure	2,105,839
Add revenue less transfers and statutory payments	47,227
Total gross expenditure (budgetary, non-statutory)	2,153,066
Unexpended balances of appropriation	$ 26,056

Summary of Cash Payments and Receipts

	Payments	Receipts	Net
Current Account	$2,246,744	$140,905	$2,105,839

OFFICE OF THE AUDITOR GENERAL
PROVINCE OF NEWFOUNDLAND
NOTES TO THE FINANCIAL INFORMATION
31 MARCH 1997

Authority

Section 3 of the *Auditor General Act* provides for the establishment of a department of the public service of the province called the Office of the Auditor General. This Act was assented to on 31 October 1991. The Act provides for the annual audit of the Office and requires that the auditor submit his or her report to the Commission of Internal Economy for tabling before the House of Assembly.

1. Significant accounting policies

This financial information has been prepared by the Office of the Auditor General on a cash basis of accounting modified in accordance with the *Financial Administration Act*. Outlined below are the significant policies followed:

(a) Revenues

Revenues are recorded when actually received.

(b) Expenditures

Expenditures are recorded when actually paid except that liabilities incurred for the financial year ended 31 March, invoices for which are received by the Comptroller General by 30 April, are recorded as if they were paid by 31 March.

(c) Assets and liabilities

Assets and liabilities are recorded on a basis consistent with the policies used in preparing the Public Accounts of the Province of Newfoundland. Direct liabilities and convertible assets such as amounts receivable are reported in the Schedule of Assets and Liabilities.

(d) Inventories

Inventories are not considered to be convertible and therefore are not valued in the Schedule of Assets and Liabilities. They are charged as budgetary expenditures and are expensed in the year they are acquired.

OFFICE OF THE AUDITOR GENERAL
PROVINCE OF NEWFOUNDLAND
NOTES TO THE FINANCIAL INFORMATION
31 MARCH 1997

1. Significant accounting policies (cont'd.)

(e) Operating expenses

The employer's portion of government personnel costs is paid by the Department of Finance and is not reflected in this financial information.

(f) Fixed assets

Fixed asset acquisitions are charged as budgetary expenditures and are expensed in the year they are acquired. The assets are not considered to be convertible and therefore are not capitalized and are not valued on the Schedule of Assets and Liabilities.

(g) Income taxes

The Office of the Auditor General is not subject to Provincial or Federal income taxes.

2. Pensions

Under the *Auditor General Act*, all persons employed in the Office of the Auditor General are employees for the purposes of the *Public Service Pensions Act, 1991*, and are entitled to all the benefits under that Act. No pension expenditure has been recorded in this financial information.

5.2 Special Reports

Report under Section 15 of the *Auditor General Act*

Newfoundland Farm Products Corporation

Section 15 of the Auditor General Act requires that we report to the Lieutenant-Governor in Council any improper retention or misappropriation of public money or other activity that comes to our attention during our audits. This section also requires that we provide a general description of any incidents referred to the Lieutenant-Governor in Council in the Auditor General's annual report.

On 25 April 1997 we reported to the Lieutenant-Governor in Council that our review of Newfoundland Farm Products Corporation had disclosed that payments made to three senior employees were not in accordance with Government's compensation policies.

On 25 November 1997, we reported to the Lieutenant-Governor in Council that our review of Newfoundland Farm Products Corporation had disclosed that there were certain other transactions of the Corporation which occurred primarily in 1996-97 and which relate to the significant operating loss of $7.9 million for 1996-97.

Reports under Section 16 of the *Auditor General Act*

Section 16 of the Auditor General Act provides that the Auditor General may accept a special assignment from the Lieutenant-Governor in Council, the House of Assembly or the Public Accounts Committee. During the past year we performed the following special assignments:

Health Care Corporation of St. John's

On 2 December 1996, the House of Assembly's Public Accounts Committee passed a resolution requesting that we carry out a review of the financial affairs of the Health Care Corporation of St. John's. We commenced our review in January 1997 and the review covered the period from 1 April 1995 through 31 December 1996.

Our report on this review was presented to the Public Accounts Committee on 29 August 1997 and was tabled in the House of Assembly on 4 September 1997. Further details of this review are provided in Section 3.21 of this Report.

Newfoundland Cancer Treatment and Research Foundation

On 2 December 1996, the House of Assembly's Public Accounts Committee passed a resolution requesting that we carry out a review of the financial affairs of the Newfoundland Cancer Treatment and Research Foundation. Our review covered the period from 1 April 1995 to 31 March 1997.

Our report on this review was presented to the Public Accounts Committee on 1 December 1997 and was tabled in the House of Assembly on 2 December 1997. Further details of this review are provided in Section 3.22 of this Report.

Town of Pouch Cove

On 13 February 1997, the House of Assembly's Public Accounts Committee passed a resolution requesting that we carry out a review of the administrative and financial operations of the Town of Pouch Cove. We commenced our review in February 1997 and the review covered the period from 15 November 1993 to 27 February 1997.

Our report on this review was presented to the Public Accounts Committee on 28 August 1997 and was tabled in the House of Assembly on 4 September 1997. Further details of this review are provided in Section 3.26 of this Report.

5.3 Professional Activities of the Office

Conference of Legislative Auditors of Canada

The twenty-fifth annual Conference of Legislative Auditors of Canada was held from 14 September to 16 September 1997 in Edmonton, Alberta. This conference brought together representatives from all legislative audit offices in Canada and Bermuda and served as a useful forum for the sharing of information and ideas.

This year's conference addressed issues relating to audit evidence for performance auditing, public sector accountability - guiding principles, performance reporting for legislative audit offices, strategic planning for audit offices, the activities of the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants and the annual update of the work of the Legislative Auditing Practices Committee.

We note that representatives from the various Public Accounts Committees in Canada held their annual meeting at the same time in Edmonton. This permitted the representatives of the various Public Accounts Committees to hold a joint session with the Legislative Auditors relating to improving the management and control of public resources.

Canadian Comprehensive Auditing Foundation

The Canadian Comprehensive Auditing Foundation (CCAF) was established in 1980 as a national, non-profit organization, an autonomous body devoted to the development of comprehensive auditing. The Foundation was created through the combined efforts of Canadian legislative auditors, senior representatives of leading accounting and management consulting firms, and the internal audit and academic communities. The main objective of the Foundation is to serve as a focal point for collecting and communicating comprehensive auditing knowledge and experience.

The Office of the Auditor General of Newfoundland has been a sustaining member of the Foundation since 1980. This association has provided us with the opportunity to meet with and exchange ideas with our colleagues and other individuals who share a common interest in the most current auditing standards in the public sector.

5.4 Public Accounts Committee

Appointment and Composition of the Committee

The Public Accounts Committee is appointed under Standing Order 84(a), (d) of the Standing Orders of the House of Assembly of Newfoundland. The Committee is appointed for the duration of each Assembly and is comprised of four Government members and three Opposition members. The Chairman of the Committee is elected from the appointed Opposition members and the Vice-Chairman is elected from the appointed Government members.

Role of the Committee

The role of the Committee is to assist in holding the Government, including Crown corporations and other agencies, accountable to the Legislature for the administration of public assets and spending of public funds. This is performed by holding hearings and reporting upon matters contained in the Public Accounts of the Province and the Annual Report of the Auditor General.

Committee Procedures and Operations

Most Committee meetings deal with assessing the legality and prudence of Government expenditures and the establishment of proper administration policies and procedures in Government departments and agencies of the Crown.

At meetings dealing with Government departments, the Deputy Minister, usually accompanied by senior officials, answers questions raised by Committee members. When the Committee is reviewing agencies of the Crown, the Chief Executive Officer and, at times, the Chairman of the Board attend the meetings, usually accompanied by senior agency staff.

The Committee usually conducts its public meetings when the Legislature is not in session. Meetings to hear evidence and to obtain information are generally open to the public. Meetings held to determine the Committee's agenda and to prepare the annual report are held in camera.

Appendix I

Departmental Audits Performed by the Auditor General

General Government Sector

Consolidated Fund Services

Executive Council

Finance

Government Services and Lands

Legislature

Public Service Commission

Works, Services and Transportation

Resource Sector

Development and Rural Renewal

Environment and Labour

Fisheries and Aquaculture

Forest Resources and Agrifoods

Industry, Trade and Technology

Mines and Energy

Tourism, Culture and Recreation

Social Sector

Education

Health

Justice

Municipal and Provincial Affairs

Newfoundland and Labrador Housing

Social Services

Appendix II

Financial Statement Audits and Additional Examinations of Agencies of the Crown Performed by the Auditor General

Financial Statement Audits

Department of Development and Rural Renewal

Farm Development Loan Board

Fisheries Loan Board of Newfoundland

Enterprise Network Inc.

Enterprise Newfoundland and Labrador Corporation

Department of Education

Provincial Information and Library Resources Board

Executive Council

Advisory Council on the Economy

Provincial Advisory Council on the Status of Women

Department of Finance

Hotel Buildings Limited

Marble Mountain Development Corporation

Newfoundland Government Sinking Fund

Newfoundland Industrial Development Corporation

Newfoundland Municipal Financing Corporation

Province of Newfoundland Pooled Pension Fund

Department of Forest Resources and Agrifoods

Livestock Owners Compensation Board

Newfoundland Crop Insurance Agency

Financial Statement Audits and Additional Examinations of Agencies of the Crown Performed by the Auditor General

Financial Statement Audits (cont'd)

Department of Government Services and Lands

Public Accountants Licensing Board

Department of Health

Newfoundland Medical Care Commission

Department of Industry, Trade and Technology

Bull Arm Site Corporation

Department of Justice

Director of Support Enforcement

Newfoundland Legal Aid Commission

Office of the High Sheriff

Registrar of the Supreme Court of Newfoundland

Department of Municipal and Provincial Affairs

Newfoundland and Labrador Housing Corporation

Department of Tourism, Culture and Recreation

Heritage Foundation of Newfoundland and Labrador

Newfoundland and Labrador Arts Council

Department of Works, Services and Transportation

C. A. Pippy Park Commission

Financial Statement Audits and Additional Examinations of Agencies of the Crown Performed by the Auditor General

Financial Statement Audits (cont'd)

New Agencies of the Crown

The following agencies of the Crown have not appointed financial statement auditors as at 31 March 1997. Section 14 (1) of the Auditor General Act provides that: *where an auditor has not been appointed to audit an agency of the Crown or a Crown-controlled corporation, the Auditor General shall be the auditor.*

Department of Environment and Labour

Multi-Material Stewardship Board

Newfoundland and Labrador Waste Management Trust Fund

Department of Industry, Trade and Technology

Newfoundland and Labrador Film Development Corporation

Newfoundland Government Fund Limited

Additional Examinations

The *Auditor General Act* and other legislation provide the authority and responsibility to the Auditor General to review and report on controls over public funds, including those held by agencies of the Crown and other entities which receive, hold or expend such funds, whether or not the Auditor General is the auditor of the financial statements of such entities.

In addition to performing the financial statement audits of the entities previously listed, during the year we also performed additional examinations of the following entities:

Department of Environment and Labour

Workers' Compensation Commission

Department of Finance

Newfoundland Liquor Corporation

Appendix II

Financial Statement Audits and Additional Examinations of Agencies of the Crown Performed by the Auditor General

Additional Examinations (cont'd)

Department of Forest Resources and Agrifoods

Newfoundland Farm Products Corporation

Department of Health

Central Regional Community Health Board

Memorial University Faculty of Medicine

Department of Justice

Newfoundland Legal Aid Commission

As a result of these additional examinations we issued management reports which are summarized in this Report.

Appendix III

Agencies of the Crown and Other Entities Whose Financial Statement Audits are Performed by Private Sector Auditors

Department of Education

Memorial University of Newfoundland

Memorial University of Newfoundland Pension Plan

Newfoundland and Labrador School Trustees' Association

Colleges

Cabot College of Applied Arts, Technology, and Continuing Education

Central Newfoundland Regional College of Applied Arts, Technology, and Continuing Education

Eastern College of Applied Arts, Technology, and Continuing Education

Labrador College of Applied Arts, Technology and Continuing Education

Westviking College of Applied Arts, Technology, and Continuing Education

School Boards

District #1 - Labrador

District #2 - Northern Peninsula/Labrador South

District #3 - Corner Brook/Deer Lake/St. Barbe

District #4 - Stephenville/Port aux Basques

District #5 - Baie Verte/Central /Connaigre

District #6 - Lewisporte/Gander

District #7 - Burin

District #8 - Clarenville/Bonavista

District #9 - Avalon West

District #10 - Avalon East

School Bus Companies

Burpen School Bus System

Norpen School Bus System

Agencies of the Crown and Other Entities Whose Financial Statement Audits are Performed by Private Sector Auditors

Department of Education (cont'd)

School Bus Companies (cont'd)

Nova Consolidated School Bus System

School Bus Transportation Committee of the Humber-St. Barbe School Board

Department of Environment and Labour

Workers' Compensation Commission

Department of Finance

Marble Mountain Management Corporation

Newfoundland Liquor Corporation

Department of Fisheries and Aquaculture

Newco IV Corporation

Professional Fish Harvesters Certification Board

Department of Forest Resources and Agrifoods

Newfoundland Farm Products Corporation

Department of Government Services and Lands

Board of Commissioners of Public Utilities

Credit Union Deposit Guarantee Corporation

Department of Health

Newfoundland and Labrador Health Care Association

Newfoundland Cancer Treatment and Research Foundation

Appendix III

Agencies of the Crown and Other Entities Whose Financial Statement Audits are Performed by Private Sector Auditors

Department of Health (cont'd)

Provincial Genetics Program

Provincial Perinatal Program

Public Health Laboratory

Community Health Boards

Central Regional Community Health Board

Eastern Newfoundland Regional Community Health Board

St. John's Regional Community Health Board

Western Newfoundland Regional Community Health Board

Regional Hospital Boards

Avalon Health Care Institutions Board

Central East Health Care Institutions Board

Central West Health Care Institutions Board

Grenfell Regional Health Services Board

Health Care Corporation of St. John's

Health Labrador Corporation

Peninsulas Health Care Corporation

Western Health Care Corporation

Nursing Homes

Agnes Pratt Home Board

St. Luke's Home (Anglican Homes Incorporated Board)

Glenbrook Lodge

Hoyles/Escasoni Board

Agencies of the Crown and Other Entities Whose Financial Statement Audits are Performed by Private Sector Auditors

Department of Health (cont'd)

Nursing Homes (cont'd)

Masonic Park Board

Pentecostal Assemblies - Clarke's Beach Senior Citizens Home

St. Patrick's Mercy Home Board

Department of Industry, Trade and Technology

Marystown Shipyard Limited

Newfoundland Hardwoods limited

Newfoundland Ocean Enterprises Limited

Vinland Industries (A Limited Partnership)

Vinland Industries Limited

Department of Mines and Energy

Churchill Falls (Labrador) Corporation

Gull Island Power Company Limited

Lower Churchill Development Corporation Limited

Newfoundland and Labrador Hydro Electric Corporation

Twin Falls Power Corporation Limited

Department of Tourism, Culture and Recreation

The John Cabot (1997) 500th Anniversary Corporation

Auditor General Act

1. This Act may be cited as the *Auditor General Act*.

2. (1) In this Act

(a) "agency of the Crown" means an authority, board, commission, foundation, agency, corporation, association, institute or other body of persons, whether incorporated or unincorporated, 50% or more of the members of which or 50% or more of the members of the board of management or board of directors of which,

(i) are appointed by an Act of the Legislature or by the Lieutenant-Governor in Council, or

(ii) where not so appointed, in the discharge of their duties are public officers or servants of the Crown or are responsible to the Crown for the proper discharge of their duties;

(b) "audit" means an audit or examination of accounts of public money that may be made by the auditor general under this Act;

(c) "auditor general" means the Auditor General of Newfoundland appointed under section 4;

(d) "commission" means the Commission of Internal Economy of the House of Assembly appointed under the authority of *The Internal Economy Commission Act*;

(e) "Crown controlled corporation" means a corporation that is not an agency of the Crown and having

(i) 50% or more of its issued and outstanding shares vested in the Crown or in the name of a minister of the Crown, or

(ii) the appointment of a majority of its board of directors made or approved by the Lieutenant-Governor in Council;

(f) "office" means the Office of the Auditor General established under section 3; and

(g) "public money" means all money received, held or collected for or on behalf of the province by a minister of the Crown or other public officer in his or her official capacity or by a person authorized to receive, hold or collect that money, and includes

(i) all revenues of the province,

(ii) money borrowed by the province or received through the issue and sale of securities, and

(iii) money paid to the province for a special purpose.

(2) Words and expressions used in this Act and not defined in subsection (1) have the same meaning as in *The Financial Administration Act, 1973.*

3. There is established a department of the public service of the province called the Office of the Auditor General, over which the auditor general shall preside.

4. (1) The Lieutenant-Governor in Council shall, by commission under the Great Seal of the province, appoint a qualified auditor to be the officer called the Auditor General of Newfoundland.

(2) The person appointed to the position of auditor general under this section must be confirmed in office as auditor general by the introduction in the House of Assembly of a resolution within 10 days after his or her appointment and if the House of Assembly is not sitting within 10 days after the commencement of the next ensuing Session of the House of Assembly or within 10 days after the House of Assembly resumes sitting following an adjournment of the House of Assembly.

(3) The auditor general is by virtue of his or her position an officer of the House of Assembly.

5. (1) The auditor general holds office for a term of 10 years but may be removed for cause by the Lieutenant-Governor in Council following the passing by the House of Assembly of a resolution requesting the Lieutenant-Governor in Council to do so.

(2) Once having served as auditor general, a person is not eligible for reappointment to that office.

6. In the event of the absence or incapacity of the auditor general or where the Office of Auditor General is vacant, the Lieutenant-Governor in Council may appoint a person temporarily to perform the duties of the auditor general.

7. The auditor general shall be paid a salary out of the Consolidated Revenue Fund at a rate set by the Lieutenant-Governor in Council and is entitled to the privileges of office of a deputy minister.

8. The auditor general shall not hold an office of profit or shall not act as trustee for profit for another person, other than his or her office as auditor general or engage in an occupation for reward outside the duties of his or her office.

9. (1) Before entering upon his or her duties, the auditor general shall

(a) take or make and sign the Oath or Affirmation of Allegiance under *The Oaths of Office Act*; and

(b) take or make and sign the following oath or affirmation of office:

"I, ..., do solemnly swear (or solemnly, sincerely and truly declare and affirm) that I will faithfully, truly, impartially, honestly, justly and to the best of my judgment, skill and ability, execute and perform the powers, duties and functions reposed in or required of me as auditor general under the *Auditor General Act* or another Act and that I will observe and comply with the laws of Canada and Newfoundland." (Where an oath is taken add "So help me God").

(2) The oaths or affirmations referred to in subsection (1)shall be administered by the Speaker or by the Clerk of the House of Assembly.

10. The auditor general is the auditor of the financial statements and accounts of the province and shall make those examinations and inquiries that the auditor general considers necessary to enable him or her to report as required by this Act.

11. The auditor general shall examine the several financial statements required by *The Financial Administration Act, 1973* to be included in the public accounts of the province, and any other statement that is required to be audited by the auditor general under that Act or another statement that the Minister of Finance may present for audit and shall express his or her opinion as to whether the financial statements present fairly the financial position, results of operations and changes in the financial position of the province in accordance with the disclosed accounting policies of the provincial government and on a basis consistent with that of the preceding year, together with reservations the auditor general may have.

12. (1) The auditor general shall as he or she considers necessary but at least annually report to the House of Assembly on

(a) the work of the office;

(b) whether, in carrying out the work of the office, the auditor general received all the information including reports and explanations the auditor general required;

(c) the results of the auditor general's examination of the financial statements referred to in section 11; and

(d) audits, examinations and inquiries performed under this Act.

(2) A report of the auditor general under subsection (1) shall include the results of the auditor general's examination of the accounts of the province, and shall call attention to anything the auditor general considers significant, including instances where

(a) collections of public money

(i) have not been effected as required under various Acts and regulations, directives or orders under those Acts,

(ii) have not been fully accounted for, or

(iii) have not been properly reflected in the accounts;

(b) disbursements of public money

(i) have not been made in accordance with the authority of a supply vote, or relevant Act,

(ii) have not complied with regulations, directives or orders applicable to those disbursements,

(iii) have not been properly reflected in the accounts, or

(iv) have not been made for the purposes for which it was appropriated;

(c) accounts have not been faithfully and properly kept;

(d) assets acquired, administered or otherwise held are not adequately safeguarded or accounted for;

(e) accounting systems and management control systems that relate to revenue, disbursements, the safeguarding or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with; or

(f) factors or circumstances relating to an expenditure of public money which in the opinion of the auditor general should be brought to the attention of the House of Assembly.

(3) Paragraph (2)(f) shall not be construed as entitling the auditor general to question the merits of policy objectives of the government.

13. (1) Each report of the auditor general referred to in section 12 shall be submitted to the Speaker of the House of Assembly and the Speaker shall table each report before the House of Assembly immediately after receipt of the report by him or her or, where the House of Assembly is not then in Session, on the 1st day of the commencement of the next ensuing Session of the House of Assembly or on the 1st day after the House of Assembly resumes sitting following an adjournment of the House of Assembly.

(2) The annual report of the auditor general shall be submitted on or before January 31 following the close of the fiscal year to which the report relates.

14. (1) Where an auditor has not been appointed to audit an agency of the Crown or a Crown controlled corporation, the auditor general shall be the auditor.

(2) Where the auditor of an agency of the Crown or of a Crown controlled corporation is other than the auditor general, the auditor shall

(a) deliver to the auditor general after completion of the audit a copy of the auditor's report, his or her recommendations to management and a copy of the audited financial statements of the corporation or agency;

(b) make available immediately to the auditor general, when so requested by the auditor general, all working papers, reports, schedules and other documents in respect of the audit; and

(c) provide immediately to the auditor general, when so requested by the auditor general, a full explanation of work performed, tests and examinations made and the results obtained, and other information relating to the audit within the knowledge of that auditor in respect of the agency or corporation.

(3) Where the auditor general is of the opinion that the information, explanation or document that is provided, made available or delivered to the auditor general by the auditor referred to in subsection (2) is insufficient to permit the auditor general to exercise his or her powers or duties under this Act, the auditor general may conduct or cause to be conducted an additional examination and investigation of the records and operations of the agency of the Crown or the Crown controlled corporation that the auditor general considers necessary.

15. (1) Where during the course of an audit, the auditor general becomes aware of an improper retention or misappropriation of public money or another activity that may constitute an offence under the *Criminal Code* or another Act, the auditor general shall immediately report the improper retention or misappropriation of public money or other activity to the Lieutenant-Governor in Council.

(2) In addition to reporting to the Lieutenant-Governor in Council under subsection (1), the auditor general shall attach to his or her annual report to the House of Assembly a list containing a general description of the incidents referred to in subsection (1) and the dates on which those incidents were reported to the Lieutenant-Governor in Council.

16. (1) The auditor general may, where in his or her opinion such an assignment does not interfere with the auditor general's primary responsibilities under this Act, whenever the Lieutenant-Governor in Council so requests or the House of Assembly or the Public Accounts Committee by resolution so requires, inquire into and report on a matter relating to the financial affairs of the province or to public property or inquire into and report on a person or organization that has received financial aid from the government of the province or in respect of which financial aid from the government of the province is sought.

(2) Where the auditor general makes a report in accordance with subsection (1), the auditor general shall report back to either the Lieutenant-Governor in Council, the House of Assembly or the Public Accounts Committee.

17. Except as provided by another Act that expressly refers to this section, every department of government, every agency of the Crown and every Crown controlled corporation shall furnish the auditor general with information regarding its power, duties, activities, organization, financial transactions and methods of business as the auditor general requires, and the auditor general shall be given access to all books, accounts, financial records, reports, electronic data processing records, explanations, files and all other papers, things or property belonging to or in use by the department, agency of the Crown or Crown controlled corporation and necessary to the performance of the duties of the auditor general under this Act.

18. (1) The auditor general may examine a person on oath or affirmation on a matter pertinent to an account submitted to the auditor general for audit and the oath or affirmation may be administered by the auditor general to a person whom the auditor general desires to examine.

(2) In order to compel the attendance of a person under subsection(1), the auditor general may apply to a judge of the Trial Division for an order that a subpoena be issued from the court commanding the person named in the subpoena to appear before the auditor general at the time and place mentioned in the subpoena, and then and there to testify to all matters within that person's knowledge relative to an account submitted to the auditor general.

(3) Where so required, the person named in the subpoena shall produce a document, paper or thing which he or she has possession of relative to the account.

(4) A person named in a subpoena issued under this section is entitled to reasonable expenses at the time of the service.

19. Notwithstanding sections 17 and 18, the auditor general shall not be permitted access to reports arising out of the conduct of lawful police investigations or to information in the records listed in paragraphs 9(1)(b) to (f) of *The Freedom of Information Act* except for the information in the records disclosed under subsection 9(2) of that Act.

20. The auditor general may station in the offices of a department, agency of the Crown or Crown controlled corporation, an employee of the office for the purpose of enabling the auditor general to more effectively exercise or perform his or her powers and duties under this or another Act, and the department, agency of the Crown or Crown controlled corporation shall provide the necessary office accommodation and facilities for employees so stationed.

21. The auditor general and each person employed in the office or appointed or engaged to assist the auditor general for a limited period of time or in respect of a particular matter under section 28 shall keep confidential all matters that come to his or her knowledge in the course of his or her employment or duties under this Act and shall not communicate those matters to another person, except as may be required in connection with the discharge of his or her responsibilities under this Act or under the *Criminal Code*.

22. Audit working papers of the office shall not be laid before the House of Assembly or a committee of the House of Assembly.

23. (1) Those auditors and employees that are necessary to enable the auditor general to perform his or her duties under this or another Act shall be appointed or employed in the manner authorized by law and are members of the public service of the province.

(2) The personnel management policies of the Treasury Board as they relate to the public service of the province apply to the office.

(3) *The Conflict of Interest Act, 1973* applies to the auditor general and every person employed in the office.

24. (1) Every person employed in the office, shall, before performing a duty as an employee in the office

(a) take or make and sign the Oath or Affirmation of Allegiance under *The Oaths of Office Act;* and

(b) take or make and sign the following oath or affirmation of office:

> "I ...., do swear (or solemnly, sincerely and truly,declare and affirm) that I will faithfully, honestly and impartially to the best of my knowledge, skill and ability perform my duties as an employee in the Office of the Auditor General and that I will observe and comply with the laws of Canada and Newfoundland and except as I may be legally required, I will not disclose or give to a person information or a document that comes to my knowledge or possession by reason of my being an employee in the Office of the Auditor General." (In the case where an oath is taken add "So help me God").

(2) The oaths or affirmations referred to in subsection (1) shall be administered by the auditor general or his or her designate.

(3) The auditor general may require a person or class of persons appointed to assist the auditor general for a temporary period of time or in respect of a particular matter under section 28 to take or make and subscribe the oaths or affirmations referred to in subsection (1).

(4) A copy of each oath or affirmation administered to an employee of the office under subsection (1) shall be kept in the files of the office.

(5) The refusal of an employee of the office to take or make and subscribe to the oaths or affirmations or the failure to adhere to the oaths or affirmations required by subsection (1) may be considered as cause for dismissal.

25. (1) All persons employed in the office are employees for the purposes of the *Public Service Pensions Act, 1991* and are entitled to all the benefits under that Act.

(2) Notwithstanding subsection (1), the LieutenantGovernor in Council may by order permit the auditor general to participate in the *Public Service Pensions Act, 1991* or may by order stipulate other pension arrangements for the auditor general upon his or her appointment under this Act.

26. The auditor general may delegate in writing to an employee of the office authority to exercise a power or perform a duty of the auditor general other than reporting to the House of Assembly.

27. The auditor general may appoint an employee of the office as acting auditor general while the auditor general is absent from the province.

28. The auditor general may engage, on a fee basis, a person to act as his or her agent for the purpose of conducting an audit or examination that the auditor general is empowered to conduct or to perform a service that the auditor general considers necessary for a purpose related to the exercise or performance of the auditor general's powers and duties under this or another Act.

29. The auditor general, persons employed in the office and those persons employed or engaged by the auditor general under the authority of section 28 are not liable in a proceeding for an act done or not done or for a statement or report made by them in good faith in connection with a matter they are authorized or required to do under this Act.

30. Subject to *The Public Tender Act, 1984*, the auditor general may engage within the limits of the appropriation approved by the Legislature for his or her office and without the approval of the Treasury Board the professional services, including counsel, consultants, accountants and other experts and acquire goods that the auditor general considers necessary for a purpose related to the exercise or performance of his or her powers and duties under this or another Act.

31. Where the auditor general

(a) considers it necessary to report for the information of the Lieutenant-Governor in Council; or

(b) is required to report to the Lieutenant-Governor in Council for the purposes of this Act, especially in respect of a matter relating to the office, the report is made through the Minister of Finance.

32. (1) The Commission shall appoint a qualified auditor to audit annually the office.

(2) The auditor appointed under subsection (1), has the same powers and shall perform the same duties in relation to an audit of the office that the auditor general has or performs in relation to an audit performed under this Act.

(3) The auditor appointed under subsection (1) shall submit his or her report to the commission and send a copy to the auditor general.

(4) The Speaker of the House of Assembly shall table the report of the auditor under this section before the House of Assembly immediately after receiving the report by him or her or where the House of Assembly is not then in Session, on the 1st day of the commencement of the next ensuing Session of the House of Assembly or the 1st day after the House of Assembly resumes sitting following an adjournment of the House of Assembly.

33. (1) The auditor general shall submit annually to the commission for its approval estimates of the sums that will be required to be provided by the Legislature for the payment of the salaries, allowances and expenses of the office under this Act during the next ensuing fiscal year.

(2) The commission shall review and may alter as it considers proper the estimates submitted under subsection (1) and, upon completion of the review, the Speaker of the House of Assembly shall submit the estimates as approved by the commission to the House of Assembly for the purpose of inclusion in the estimates of the province for approval by the Legislature.

34. (1) Where the auditor general conducts examinations or audits an agency of the Crown or Crown controlled corporation, the auditor general may charge fees for professional services rendered by his or her office.

(2) The fees referred to in subsection (1) shall be established on a basis that may be approved by the Lieutenant-Governor in Council.

(3) The fees charged and collected by the auditor general under this section shall be paid into the Consolidated Revenue Fund.

35. (1) Persons in the employ of the Department of the Auditor General at the commencement of this Act are considered to have been appointed in accordance with this Act.

(2) Upon the commencement of this Act, the Department of the Auditor General is considered to be and is continued in the name of the Office of the Auditor General under this Act.

(3) A reference in another Act to the auditor general appointed under *The Financial Administration Act, 1973* or a reference in another Act to the auditor general shall be considered to be a reference to the auditor general appointed under this Act.

36. (1) Paragraph 2(a) of *The Financial Administration Act, 1973* is repealed and the following substituted:

"(a) "auditor general" means the Auditor General of Newfoundland appointed under the *Auditor General Act* and includes all employees acting under the auditor general's direction;".

(2) Sections 58 to 71 of the Act are repealed.

(3) Subsection 83(1) of the Act is amended by striking out the words "and the Auditor General" and the words "or the Auditor General".